

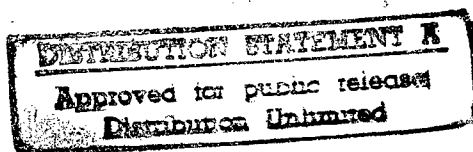
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# ***JPRS Report***



# **China**

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## UNITED STATES

### Article Views Cambodian Policy

91CM0513A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 1082, 1 Jul 91 pp 15-16

[Article by Wen Shih (2429 4258): "The White House's Difficult Position With Respect to Its Cambodian Policy"]

[Text] For the past several years, the United States has, based on changes in the situation, been continually readjusting its policy on the Cambodian issue. In July 1990, after it announced it was cancelling recognition of the Coalition Government of Democratic Kampuchea [CGDK], an intense controversy erupted between Congress and the White House. On several crucial questions, the former has pressed steadily forward, constantly exerting pressure, while the latter has kept giving in, gradually going on the defensive. The White House's Cambodian policy is now in difficult straits.

#### Focus of the Debate

The Bush administration's differences with the Democratic dominated Congress on the Cambodian issue focus on three aspects.

First, whether or not aid should continue to be supplied to Cambodian noncommunist resistance forces. U.S. aid to the Sihanouk and Son factions is divided between covert and overt. Following Vietnam's "troop withdrawal" from Cambodia, the congressional opposition began to demand cutbacks in and even elimination of aid to the Sihanouk and Son resistance forces to prevent the Khmer Rouge from "benefitting" from it. At the time, congressional demands were deflected by the Bush administration's rationale that aid to the noncommunist resistance was useful in controlling the Khmer Rouge. However, in October 1990, Congress stopped secret aid to the noncommunist resistance forces and later, going a step further, it attached to the foreign aid bill for fiscal year 1991 harsh provisions for providing aid to the forces. If they, either "strategically or tactically," engaged in military cooperation with the Khmer Rouge, the United States would discontinue all overt aid. Early this year, under pressure from Congress, the Bush administration temporarily ceased overt aid to the Sihanouk and Son factions. Only because of famine that occurred in the region controlled by the two factions and because of Vietnam's continued support of the Phnom Penh government's military operations and reintensification of the Cambodian civil war did the U.S. State Department in April announce it intended to unfreeze \$7 million in humanitarian aid.

Second, whether or not relations with Vietnam should be normalized. After Vietnam invaded Cambodia, the White House and Congress made Vietnam's cooperation with the United States in the overall settlement of the Cambodian conflict a precondition for normalizing U.S.-Vietnamese relations. However, since 1990, Congress' attitude has undergone a gradual change. Quite

early, it demanded that the White House negotiate with Vietnam. After the White House's August "submission," a group of congressional leaders then demanded that Bush cancel the 15-year-old trade embargo against Vietnam. The Bush administration has repeatedly given in. In February of this year, the U.S. Treasury Department authorized U.S. banks to establish communication links with Vietnamese banks in preparation for restoring trade between the two countries. In April, the State Department proposed four stages for normalizing relations with Vietnam and set up a U.S. office in Hanoi. Despite all this, Congress still believes the White House is dragging its feet on improving relations with Vietnam.

Third, whether or not to support revision of the UN peace plan. In August 1990, the five permanent members of the Security Council reached a framework agreement on an overall political settlement of the Cambodian issue, bringing hope of peace to the war-ravaged country. The Phnom Penh regime and Vietnam also expressed support for the agreement. However, they also demanded that it be revised by adding a clause to prevent the Khmer Rouge from staging a comeback. Certain members of Congress enthusiastically agreed with this argument. At the beginning of May, following his visit to Phnom Penh, Senator John Kerry criticized the UN peace plan for being vague and ambiguous as to how to disarm the various sides engaged in hostilities, and he condemned the Khmer Rouge. He urged that the plan be revised.

The three aspects discussed here indicate that the U.S. administration, under continuously strong pressure from Congress, no longer considers Vietnam and the Phnom Penh regime as the main targets to be contained. Rather, as one of the chief objectives of its Cambodian policy, it regards preventing the return to power of the Khmer Rouge, the main force opposing Vietnam, as its main target. This makes clear that the U.S. stand on containing Vietnam has already softened.

#### Reasons for the Predicament

The Bush administration has irreconcilable differences with Congress, and the reason it has become bogged down in a passive position on its Cambodian policy is many-sided.

First, huge changes in the world situation have produced strong assaults on U.S. policy toward Cambodia. During the time of U.S.-Soviet confrontation, the United States had no choice but to give tacit consent to and utilize the important actions of the Khmer Rouge in contending with Vietnamese expansion. With the advent of the U.S.-Soviet detente and the end of the cold war, the United States has gradually pushed "human rights" diplomacy to center stage in international relations. In addition, with Vietnam's "troop withdrawal" from Cambodia, the United States no longer feels that the major threat to Cambodia is Vietnam and the Phnom Penh regime but that it comes from the Khmer Rouge whose

"human rights" record is "extremely lacking." Consequently, under constant strong pressure from the U.S. media and Congress, it is hard for the Bush administration to act otherwise.

Second, the objectives of the Bush administration policy on Cambodia are self-contradictory. Since last year, although the Bush administration has constantly exerted pressure on Vietnam and the Phnom Penh regime, it has, at the same time, been stressing the Khmer Rouge threat. For this reason, it has even gone so far as to rescind its recognition of the [CGDK]. This injects complicating factors into the settlement of the Cambodian issue in accordance with the UN framework agreement.

Third, under the pretext that the Khmer Rouge is mobilizing a military-political force, the U.S. Congress is proposing to resolutely exclude it. The Khmer Rouge has captured the highly strategic and economically important city of Pailin, along with certain other regions, and repulsed several counterattacks by Phnom Penh troops. As of now, they are firmly entrenched in Pailin. U.S. media are extremely uneasy about this and have declared that, after Vietnam's troop withdrawal, it would be difficult for the Heng Samrin regime to contend with the Khmer Rouge.

Consequently, certain U.S. members of Congress are demanding that the UN peace plan be revised to prevent the Khmer Rouge from resuming power.

Finally, U.S. businessmen are worried that their competitors will get to the Vietnamese market ahead of them. They are, as a result, exerting greater and greater influence on Congress, demanding that relations with Vietnam be improved as quickly as possible. Recently, economic reforms in Vietnam have achieved initial success, and the country has gone from importing rice to exporting it. Vietnamese policies to attract foreign capital are also far superior to those of East European countries. As a result, some countries, which in the past have supported the U.S. embargo of Vietnam, have begun to resume trade relations with Vietnam. In October 1990, Japan even permitted their banks to operate in Vietnam, marking the first time since the 1975 unification of North and South Vietnam that a Western [as published] country has set foot in the Vietnamese financial world. The U.S. Chamber of Commerce is extremely concerned about this, complaining that, when other countries expand their trade relations with Vietnam and invest money there, U.S. businesses are being left out. It believes U.S. long-term economic

interests will be damaged. Because of the constantly increasing urgings of businessmen, certain members of the U.S. Congress are demanding that the administration effect normal relations with Vietnam as quickly as possible.

#### **Influences on the Cambodian Situation**

Although Vietnam declares it has now completely withdrawn its troops from Cambodia, it still has, in fact, a fair number of troops hanging on there to maintain the Phnom Penh regime. Disregarding this point is obviously not beneficial to settling the Cambodian issue. With the Phnom Penh regime actually still receiving support from disguised Vietnamese troops, the United States at present is not only not expanding aid to the resistance forces of the Sihanouk and Son factions, but it is instead blocking this type of aid. This is going to increase the differences in strength between the resistance and Phnom Penh. It will, on the whole, weaken the resistance forces and, objectively, benefit the Phnom Penh regime.

We also should realize that, during the many years of the resistance struggle, the three factions making up the Cambodian resistance forces have jointly opposed the enemy and fought shoulder to shoulder. Their solidarity is exceedingly important to guaranteeing that Cambodia will become independent, peaceful, neutral, and non-aligned. The U.S. Congress wants to pressure the Sihanouk and Son factions to draw a clear line of distinction between themselves and the Khmer Rouge, thereby sowing discord within the resistance forces. This is harmful to a political settlement of the Cambodian issue.

In addition, the actions of the U.S. Congress have also encouraged the arrogance of the Heng Samrin regime and delayed implementation of the UN peace plan. At the Jakarta conference in early June, the Phnom Penh regime persisted in demanding that the Khmer Rouge be brought to trial for "crimes" during the period it was in power and that measures be taken to prevent it from taking part in elections. Obviously, this approach by the Phnom Penh regime is a pretext for continuing to pursue the civil war with Vietnamese support.

It could be said that the bias and shortsightedness of the U.S. Congress has now negatively influenced an overall just settlement of the Cambodian issue. Whether the Bush administration can extract itself from the current predicament is crucial to what the United States can accomplish with respect to a political settlement of the Cambodian issue.

## NATIONAL AFFAIRS, POLICY

### Progress, Problems of 'Double Guarantee' System

92CE0019A Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 15 Aug 91 pp 1, 2

[Article by Yang Kuankuan (2799 1401 1401) Department of Industry and Transportation, State Statistical Bureau: "Performance of 'Double Guarantee' Enterprises After One Year"]

[Text] Since last April the State Council has implemented in 234 of the nation's large and medium-sized backbone enterprises the "double guarantee" policy on a trial basis. The state guarantees enterprises major outside conditions required for production, and enterprises guarantee the state mandatory allocated products and profits tax. Our follow-up investigation over a year indicates that there is a big difference between "guaranteed" and not guaranteed. The state indeed helped individual enterprises solve some practical problems and achieved positive results. On the other hand, we discovered that they could only solve the pressing needs of an enterprise, and the fundamental solution is to invigorate enterprises by continuing reform.

#### Results of "Double Guarantee"

Since the experiment of "double guarantee" all departments and enterprises involved have implemented the State Council's "double guarantee" spirit in earnest. They have done a lot of substantial work and achieved good results.

The positive results of "double guarantee" are demonstrated mostly in the following areas:

1. **Increased sense of security in "double guarantee" enterprises, outside conditions guaranteed.** Since the removal of the State Economic Commission during the 1988 system reform, production management became chaotic, which produced a wide-spread sense of loss of direction and the fear of inability to adapt in large and medium enterprises that depended on the state for raw material supplies and marketing. It is like "experiencing the loss of one's mother-in-law only after she is gone." After implementation of the "double guarantee" policy, the State Council's Production Commission showed immediate concern for production management in "double guarantee" enterprises, and helped them solve problems. "Double guarantee" enterprises all experienced the feeling of "a baby without milk who found a mother." According to statistics, between June 1990 and June 1991, supplies of 20 major raw materials guaranteed by the state greatly increased compared with the pre-"double guarantee" era, 80 percent of products either basically fulfilled or exceeded supply plans. The transportation volume fulfilled about 107 percent of the plan, 10 percent more than the volume in pre-"double guarantee" period. Banks established circulating funds worth 13.8 billion yuan exclusively for "double guarantee" enterprises. The overall response from the "double

guarantee" enterprises is that such guarantee for conditions outside is a strong support to their production management.

2. **Strong sense of pride and responsibility generated among many cadres and workers in "double guarantee" enterprises, enterprise management and production improved.** Many "double guarantee" enterprises reported a feeling of pride and high responsibility among cadre and workers. Consequently, a sense of pride and urgency is in their thoughts, action, and work; this feeling became a powerful spiritual force. The follow up observation indicates an overall trend over the year among the 234 "double guarantee" enterprises of steady production and increased sales, reversing losses to profit, and improved economic efficiency. Gross value of industrial output increased 3 percent over 1989, and during the first six months of 1991, it increased 4.6 percent over the same period last year. Sales income in 1990 increased 9.1 percent over 1989; in the first six months of 1991, it increased 16.2 percent over the same period last year. Profits in 1990 declined 41.9 percent from 1989; during the first six months of 1991, profits increased 1 percent over the same period in 1990, a sharp contrast to large scale profit decline in other industries.

3. **Output of state mandatory products, allocation and profits tax were assured.** In 1990 and the first six months this year, the production of 60 percent of mandatory planned products exceeded the unified production plan, 30 percent of all products has been either fulfilled or nearly fulfilled, and about 72 percent of the products either fulfilled or exceeded the amount contracted by the state. In comparison with the pre-"double guarantee" era, the production of other items has also been improved. The major reason is the lack of buying power on the part of customers. The profits tax turnover rate was only 29.3 percent in the first six months last year; in the first six months this year, the profits tax turnover rate was 40.3 percent. Although this figure did not reach the goal of exceeding half for the year, it is an 11 percent increase over last year's figure.

#### Limitations of "Double Guarantee"

Although "double guarantee" work played some role in developing industry and national economy as well as in maintaining financial stability, its role is rather limited based on the situation of "double guarantee" over a year, and are demonstrated in the following areas:

1. **Production links are the target of "double guarantee," a temporary solution that does not solve deep problems.** Whether it is a guarantee of raw material supplies, capital investment, or transportation, they all concern enterprise production activities. Consequently, it is at best a temporary solution in emergency production crises. It has no effect on the major problems that prevent enterprises from development. Some of the major problems, such as poor market due to unbalanced supply and demand, surplus production capacity due to unchecked technology imports, market chaos due to the

"double price" system, and unchecked and duplicating construction due to diversified investment system and separate financing can not be solved permanently.

**2. Limitations of "double guarantee" itself.** The state can only guarantee the supply of 20 major raw materials to enterprises. On the other hand, there are hundreds and thousands of raw materials needed for production. In fact, enterprise production will be interrupted if one of these materials is missing. Therefore, although the guarantee of the supply of these 20 raw materials has an impact on production, its effect is rather limited. Furthermore, large- and medium-size "double guarantee" enterprises have many relationships with other enterprises. If the production of these enterprises cannot be guaranteed, it will have a serious impact on large enterprises, especially in the processing industry. In this sense the role of "double guarantee" has limitations. Finally, ensuring the quantity, quality, and variety of 20 major raw materials, cannot fulfill all enterprise needs.

**3. Lack of binding force.** Since implementation of "double guarantee," there have been cases where the state was unable to guarantee the supply of raw materials, and enterprises were unable to fulfill contracts and planned profits tax. For instance, in 1990 the state was able to supply only 70-90 percent of the promised amount in five of the 20 guaranteed raw materials. The supply of one raw material was even less than 70 percent. On the part of enterprises, less than 40 enterprises were able to guarantee all products. Other enterprises were short to different degrees. The majority of products did not fulfill contracts. Only 134 enterprises succeeded in fulfilling or nearly fulfilling their contracts with the state, and 69 enterprises did not fulfill planned profits tax. However, because the reasons for not fulfilling the "double guarantee" plan are complicated and the lack of rules and regulations in defining responsibilities and solutions, neither the state nor enterprises are able to take appropriate responsibilities. Besides, the state did not take measures to reward enterprises for fulfilling the "Double Guarantee." There is a lack of incentives; and there is no difference in how well an enterprise does.

### Solution Lays in Continuing Reform

To turn large- and medium-sized state enterprises into economic entities that are responsible for their own independent management, their own profit and loss, their own self-generated reform and development, one must integrate "double guarantee" policy with deep level reform and put the emphasis on the latter.

"Double guarantee" can be improved in two areas. One area is to clearly lay out the "double guarantee" plan. The second area is to establish a system of rewards and punishment, and give incentives to enterprises.

Continuing reform will solve deep level issues that the "double guarantee" failed to solve. The following are suggestions:

1. Implement price reform step by step according to plan, so that the input and output of production in

enterprises can be balanced, and thereby develop and perfect the socialist commodity market, and enterprises of different size and ownership will have the same competitive edge.

2. Socialist planned commodity markets must strictly adhere to plans. Currently in our country planning is seriously out of touch with reality. For instance, investment planning proposes volume but fails to take into consideration the source of investment capital; diversified investment creates blind and repetitive construction; unbalanced production planning in pursuit of volume and speed often result in low efficiency; lack of serious attitude in purchasing plan and in contracts results in overstock and payment delay; improper import and export planning creates excessive imports and self-destructive export competition. The only way that we can stop this chaos, and build a real socialist planned commodity economic order is to take planning seriously.

3. Industrial production must be managed in line with appropriate trades, and must break the boundary of ministries and departments.

4. Clearing "triangle debts" is an important way to rejuvenate industrial economy in the near future. "Triangle debts" have become increasingly serious in "double guarantee" enterprises. During the first six months this year, debts owed to "double guarantee" enterprises totaled 64.85 billion yuan, an increase of 11 billion yuan over the beginning of the year. Meanwhile, "double guarantee" enterprises owe 57.58 billion yuan in debts, an increase of 11.3 billion yuan over the beginning of the year. This problem has put enterprises under acute pressure. The State Council has started experiments in Liaoning Province and suggests that the lessons learned in pilot projects should be spread to the whole nation as soon as possible.

5. Reduce enterprise burdens.

6. Use the "leverage of tax bracket" wisely. According to some "double guarantee" enterprises, increased sales tax on many popular items during the 1988 industrial adjustment and growth was justified at the time because of higher prices. However, since the market slump, poor sales, and lower prices, it is obviously unreasonable to maintain the same high sales tax bracket under the circumstances. I suggest that the state use the "leverage of tax bracket" based on the market situation, and increase or decrease taxes accordingly. Only by doing so can we follow the laws of economic development.

### Increase Economic Efficiency, Continue Reform

91CE0763A Beijing JINGJI LILUN YU JINGJI  
GUANLI [ECONOMIC THEORY AND BUSINESS  
MANAGEMENT] in Chinese No 4, 28 Jul 91 pp 8-13

[Article by Tang Fengyi (0781 0023 5030), research fellow at the Chinese Academy of Social Sciences' Finance, Commerce and Commodities Institute; edited by Wang Bifeng (3769 4310 1496): "Raising Economic Efficiency and Deepening Enterprise Reform"]

[Text] As our decline in economic efficiency and the lack of vitality of most of our enterprises have now become the crux of our economic development, making a conscientious analysis of our current economic efficiency, and linking it to our enterprise reform direction, have become extremely vital immediate tasks. Our analysis here will be aimed only at certain key issues.

### I. Our Basic Trend of Yearly Decreasing Realized Profits and Taxes

When people speak of economic efficiency at present, the general indicators that they use most are realized profit and tax amounts (margins). Our realized profits and taxes certainly decreased very sharply in 1990, with statistics showing that they decreased 18.5 percent, including a 3.4 percent drop in profits and taxes paid to the state, of which 55.3 percent was a drop in profits paid to the state. Our decrease in realized profits alone was even more severe in 1990, in that the realized profits of budgeted industrial enterprises throughout China dropped 58 percent, and those of commercial ones dropped 78 percent. Even in our light industrial system that has always had higher profit margins, profits and taxes still decreased 21.7 percent in 1990, with losses increasing almost 12 percent in number and 1.8 times in amount as compared to those of 1989. This shows that our decrease in realized profits and taxes has become quite severe.

But this is still not the whole of the problem, as a deeper analysis shows that conditions are even more grim. As enterprise development is uneven, the overall figures conceal the reality that the high profits earned by a few outstanding enterprises are "cooking the books" as far as the losses sustained by most enterprises are concerned.

Excluding such high profitmaking enterprises, the decrease in the realized profits of ordinary enterprises is even more alarming.

A certain amount of hypocrisy is also lurking behind the official statistics. Some enterprises acknowledge that a rigorous accounting would show that certain profit-making enterprises are actually "profitable in name, but losing propositions in reality." Such sham profitmaking is caused by at least the following factors: (1) Many enterprises often intentionally shift to the next year costs and expenses that should be reported by the fourth quarter, or at least submitted before the end of the year, in order to maintain or "increase" their realized profits; (2) Very low rates of depreciation, plus too little deduction and retention of depreciation charges, has created a severe shortage of compensation for loss of fixed assets. Such "living off of past gains" is quite prevalent (with statistics showing assets losses due to inadequate compensation being about 70 billion yuan a year in recent years). (3) The commonly used method of linking payrolls to economic efficiency in the contract management responsibility system, means that the amount of profits that are realized in a particular year has a direct impact on the income of staff members and workers in that year. Driven by the profit motive, some enterprises often inflate their actual profits. Due to these factors, the statistical data on profits of some enterprises should actually be discounted.

Moreover, even state statistical data shows that real profit margins are in a protracted decreasing trend. Statistics show that the sales-profit margins of budgeted industrial enterprises throughout China have been decreasing year after year as follows:

Table 1

Year	1983	1985	1988	1989	1990
Percent	14.83	12.56	8.88	6.35	2.6

The fund-profit/tax margins of China's industrial enterprises decreased from 24.02 percent in 1985 to 19.95 percent in 1987 and 16.79 percent in 1989. Moreover their fixed costs rose steadily at a rate of more than 6 percent a year during the five years from 1985 to 1990, reaching 22.4 percent in 1989 and 37 percent in 1990. This shows that poor and steadily decreasing economic efficiency is not the distinctive feature of any particular year, but rather a long-standing decreasing trend. As it would have been impossible for certain chance factors alone to have created such a situation, it has become necessary to dig in and find the deeper ones.

### II. The Key Limiting Factors Involved in and the Crux of Our Poor Economic Efficiency

While realized profit and tax amounts (margins) are certainly key indicators of economic efficiency, they are still not the whole substantive crux of our economic efficiency problem. The problem is that the amounts of

realized profits and taxes are determined by many factors. It is not simply a matter of input-output ratio per se, but rather that enterprise input-output efficiency is also determined by many internal and external enterprise factors. I think that while China's current economic efficiency problem has been emphasized, it has been overemphasized, which has created a certain amount of confusion, so that at least the following matters need to be analyzed:

#### 1. The Idea (Concept) of Economic Efficiency

The idea of economic efficiency grew out of the notion of economic results. The earliest mention of these so-called economic results was by David Legault, a leading British exponent of classical political science and economics, who called them "creating as much material wealth as possible in the least amount of work time." Economic results are now generally held to be the relations (or comparison) between the labor that is expended or used and the labor successes that are achieved in production



operations. The idea of economic efficiency, in comparison to that of economic results, in addition to including the basic provision of the relations between expenditure and income, has at least the following two added implications: (1) Production achievements (products) are suited to social needs. That is, economic efficiency includes product quality and marketability, and emphasizes creation of value over simple achievement of material results. (2) Economic efficiency emphasizes the fixed and overall nature of social achievements. As value is easier to sum up and compare, and reflects overall social achievements, economic efficiency is a more fully developed idea. From this perspective, economic efficiency not only breaks free from the limitations of individual producers, but also logically includes a lot of the factors that affect the attainment of social production achievements.

But the issue does not lie in the idea itself (as the definition of an idea can be gradually clarified and standardized through deliberation). These implications of the idea of economic efficiency were clarified in order to illustrate the theoretical issues involved in the prevalent ideas about economic efficiency. The following "definitions" of the more prevalent current ideas about efficiency cannot be ignored: (1) Efficiency emphasizes income (output) over expenditure (input). Our production growth and profit and tax income are often derived from out-of-proportion increased input. (2) Efficiency emphasizes microeconomic operations over macroeconomic ones. Economic efficiency seems to refer only to enterprise problems per se. (3) Efficiency emphasizes payments to the state and appearances over real achievements. (4) Efficiency emphasizes immediate interests over long-range ones, by giving less importance to compensation for and replacement and proliferation of state assets. Such long-finalized ideas about economic efficiency are, in the final analysis, noncommodity economy ideas that are contrary to the original meaning of economic efficiency. Due to its economic properties per se, a natural economy does not emphasize economic efficiency, as can be seen from the following examples: (1) As a natural economy is aimed at satisfying its own consumer needs instead of producing commodities for their value, it emphasizes material production alone, has no idea of cost, and does not consider input. (2) As a natural economy is characterized by manual labor and separatism, it does not emphasize division of labor, does not consider value, and has no social regulatory functions. (3) As a natural economy is aimed at the possession of wealth per se, it emphasizes such possession and appearances over operations and proliferation. It would bury material wealth in the form of gold, silver, money, and valuables under the ground and let it rot before using it to "produce more wealth," of which there are many examples. While such actions are absolutely inimicable to the idea of efficiency in a commodity economy, certain aspects of our ideas about economic efficiency often contain various degrees of similar deviations. Using such noncommodity economy efficiency to observe and raise economic efficiency is a harmful

practice. This shows that when striving for the principle of socialist economic efficiency, enhancing our commodity economy mentality remains a key issue that must not be overlooked;

## 2. The Key Limiting Factors in Our Economic Efficiency

Economic efficiency's manifestations or evaluation criteria are different from its limiting factors. While various manifestations based on varying needs can be used to analyze economic efficiency, all of which are aimed at understanding the facts about economic efficiency during a given period of time, the various factors that affect economic efficiency, i.e., the direct or indirect related factors that cause it to be good or poor, of which some are chance factors and others are key limiting factors, must be understood in order for it to be raised. The key limiting factors in China's economic efficiency at present are as follows: (1) enterprise management and administration; (2) enterprise or industrial economy of scale; (3) the rationality of various economic structures focused on the distribution of existing assets; (4) the role of assets proliferation in adjusting and regulating the existing assets structure. As these factors are an organic whole, they cannot be dealt with in isolation from each other.

As far as the current poor efficiency of state-owned enterprises is concerned, while the government prefers to blame it on internal enterprise management, enterprises prefer to blame it on the policy climate and other external factors instead. While the preferences of each side are obviously one-sided, yet seemingly well-grounded, a conscientious analysis shows that neither are completely rational for the following reasons: (1) System defects are certainly exacerbating basic enterprise management difficulties. Factors, such as heavy and inescapable burdens, equalitarian distribution tendencies, irrational product price controls, and a lack of motivation and financial resources to upgrade technology, are all presenting great obstacles to basic management improvements. Poor management due to subjective factors is actually rare and not difficult to resolve. (2) Due to the longstanding existence of irrational economic structures, even when strong enterprises improve their internal management, it has no effect and worsens economic efficiency instead. (3) While the basic prerequisites for improved enterprise management are tougher property limitations and less administrative interference, such things are now basic impossibilities. As stated above, this is causing an increasing decline in enterprise microeconomic efficiency. As long as the emphasis is put on improving management and upgrading technology within enterprises in isolation, as at present, the problem is going to remain unchanged.

Economy of scale involves the following two issues: (1) Whether enterprise mass production scope can meet the demands of economy of scale. (2) Whether the organizational alliances of similar or interrelated enterprises can conform to the objective needs of economy of scale. While the first issue determines enterprise management

quality and competitive capability, it also requires the establishment of genuine merger and elimination-through-competition forces. And while the second issue involves enterprise organizational structure, as it is basically a matter of the reorganization and mobility of key production factors caused by production growth needs, it falls into the category of structural optimization. Neither of these issues can be resolved simply through microeconomic action. The ineffectiveness and unevenness of our disposition of resources is one of the key sources of our poor socioeconomic efficiency.

As to adjusting existing assets and regulating assets proliferation, enterprises and society can act according to the law of value, be guided by macroeconomic regulation and control, and use key production factor markets, property rights transfers, and enterprise mergers to achieve a smooth disposition of resources and optimization of structures when market forces are sound and complete. But as the state (government) is now the major investor, carries out existing assets adjustments through administrative force from above, and has concurrent administrative, social, macroeconomic regulation and control, and ownership functions, public welfare and administrative policymaking are its major objectives, instead of self-interest and efficient decisionmaking like enterprises, which are economic entities. In addition, the dual-track operations of administrative versus economic and command economy vs market economy are bound to have various detrimental effects on economic efficiency, which are expressed as existing assets adjustment, assets proliferation regulation, and extremely poor economic efficiency. For instance, statistics show that the 2-trillion-yuan that was invested in the four decades since the founding of the PRC (up to the end of 1988) has effectively evolved into only 700 billion yuan worth of assets, so that about 1.3 trillion yuan, and 1 trillion yuan even according to the most conservative estimate, of which about 300 billion yuan was lost due to policy-making errors and 202.4 billion yuan was lost due to forced production stoppages, has been ineffective or basically ineffective (wasted) investment. As to the operation and adjustment of existing assets, there are even more problems, such as assets erosion and devaluation, equipment obsolescence and aging without adequate compensation, assets left unused, and extremely poor operating efficiency, all of which have worsened our economic efficiency.

In short, overall economic efficiency cannot be assessed from the viewpoint of whether profits and taxes are increasing or decreasing alone, but should also be judged according to the waste created in these areas, and the key limiting role that this waste has played in lowering our economic efficiency. From an overall perspective, not only is our economic efficiency situation quite grim, but macroeconomic and deeper problems are even more significant and crucial factors in our poor economic efficiency than are microeconomic ones.

### 3. The Crux of Our Decreasing Economic Efficiency

While this analysis of the key limiting factors in our economic efficiency is obviously deeper than a superficial treatment of the problem, I still feel that it has not gone deep enough, since the following questions remain to be answered: Why have these limiting factors remained unimproved for so long? And can these key issues be dealt with in isolation? The facts show that these issues do not involve partial factors, nor can they be resolved with stopgap measures, but rather that it will be necessary to search for their ultimate source or crux. I think that it ultimately boils down to the fact that we will have to change our state-owned assets operating concepts and property rights system. In short, our state-owned assets concepts will have to be changed from the material management form of a natural or semi-natural economy to commodity and value management, with our management objectives being operating quality (results and efficiency) and assets proliferation, which will require a series of management system and pattern changes. The most crucial and fundamental of these reforms will be property rights reform, to ensure that the entities that actually manage assets have the functions and mentalities of the holders of property rights, so that we can finally move from commercialization of products to commercialization of assets and property rights, make our enterprises market-oriented, and enable them to become genuine commodity producers and managers. In order to accomplish this, we will have to ensure that our public ownership is not encroached on, while building a dual-ownership structure (of natural and corporate property rights), and gradually evolving effective economic operating forces. The government's special role in this will be to use various levers and means of effective macroeconomic regulation and control, in order to gradually resolve the various issues involved in our decreasing economic efficiency, and ensure the steady and sustained development of our national economy.

### III. New Beginnings and Approaches for Furthering Enterprise Reform

Just as the Seventh Plenary Session of the 13th CPC Central Committee has reaffirmed, the key link in countering the abovementioned problems remains reform of state-owned enterprises, large- and medium-sized ones in particular. Moreover, the ultimate aim of enterprise reform remains the separation of government administration from enterprise management, in order to enable enterprises to become commodity producers and managers who have management decisionmaking power and the sole responsibility for their profits or losses. As our direction has been thus clearly indicated, the problem remains how to realize this aim genuinely and gradually, by making the transition from our old system to a new one of a commodity economy. I will only make a few suggestions here on the following key aspects of this transition:

### 1. Current New Beginnings in Enterprise Reform

While our current reemphasis of the issues of raising economic efficiency and enhancing enterprise vitality comes after about a dozen years of reform, as the problems that we are encountering today are actually different than those of a dozen years ago, and the setting and characteristics are also different, we must come up with new, higher-level approaches and reform ideas, i.e., new beginnings. These new beginnings include at least ones in the following areas:

A. As our state-owned enterprises, particularly large- and medium-sized ones, are now facing a huge competitive challenge from small enterprises, nonstate-owned ones in particular, which challenge certainly did not exist a dozen years ago, their competitiveness and market share are going to drop sharply, and their dominant role in our national economy is certainly going to be weakened severely, unless they are basically extricated from their predicament. This is a major issue that will have an impact on the consolidation and further development of our socialist economy.

B. A dozen years of reform rectification and adjustment has clarified our enterprise proficiency and conditions, which would have been impossible a decade ago. When reform first began, our state-owned enterprises were not in such bad shape, and their development potential and capability of adapting to a commodity economy were not yet very clear. While the methods of "across-the-board application" and "quick march" still seemed generally feasible then, a dozen years of reform and the trials of market competition (even though they were certainly not complete) have widened the gaps among enterprises, and brought about enormous changes. As those that were genuinely invigorated, and those that have absolutely no development prospects, are both generally in the minority (with statistics on large- and medium-sized enterprises in Beijing showing about 10 percent in the first category and less than 20 percent in the second), the majority of enterprises are in an intermediate category of generally having very inadequate vitality. This majority of enterprises in the intermediate category can also be further broken down into the following two categories: (1) those that have development prospects and vitality and, provided they are granted the proper conditions (mainly decisionmaking power), can flourish; (2) those that need major adjustments of their economic structure and product mix, and defined enterprise and product development directions and, once they have completed these adjustments, should be given the proper support and a free rein to develop. These four types of enterprises must be dealt with differently and guided in a classified way. Those that have been invigorated should be allowed to continue to develop and self-adjust according to market needs, as long as they continue to make slight improvements. Those few that have lost their vitality, have no real development prospects, or are heavily in debt and should have long since been allowed to go bankrupt, should be eliminated resolutely, and other plans should be properly made for their staff members

and workers. Even if they prefer to be "recuperated" in the short term through training, they must not be allowed to waste resources or keep their outer structures. Such resolute elimination would also put pressure on other enterprises. The two types of enterprises in the intermediate category are the focus of reform and adjustment, and their problems should be resolved gradually and in turn. In short, results can be achieved only by suiting the remedy to the case.

C. We must make an issue of the word "deepening" in our future reform. In our dozen years of reform, we have roughly undergone the three stages of devolving authority and conceding profits to lower administrative levels, substituting taxes for profits, and implementing the contract management responsibility system. While we have achieved certain successes despite the many complications along the way, we have certainly not yet satisfactorily resolved the deep conflicts between our old system and the demands of a commodity economy. As taking certain ordinary stopgap measures under such conditions might allieviate certain frictions but could not make substantive advances, we must guard against making issues of superficial matters, and focus our efforts on a genuine "deepening" of reform instead. The crux of realizing our development objectives for the last decade of the 20th century seems to be making another good enterprise reform move, achieving certain breakthroughs, and continuing to advance. Our current economic stability is presenting us with a good opportunity to deepen reform without much risk, as long as we prepare fully, take safe steps, and reach a common understanding with our people.

### 2. Assets Contracting by Corporate Agencies Will Be the Way To Improve Our Contract Management Responsibility System.

While improving our widely practiced contract management responsibility system would obviously be a successful way to accomplish our objectives, because it would not necessarily be desirable or even feasible to simply replace it with another system, a major issue that remains to be studied and resolved is how to improve it so that it will contribute to our ultimate enterprise reform objectives.

While it is an objective fact that Capital Steel has been successfully invigorated through the use of contracting, it is another that contracting has certainly not displayed such might on a broader scale. So how is the difference to be accounted for? I think that the most crucial difference in Capital Steel's experience is that its contracting is different from ordinary contracting, which is efficiency target contracting. As far as contracted targets per se are concerned, efficiency target contracting has the following two major defects: (1) Its contracted targets are individual and its rights do not correspond to its duties. Enterprise actions are bound to be slanted towards the several contracted targets, which cannot promote enterprise operational flexibility or management enhancement. (2) Its contracted targets are too weakly tied to assets operational quality (results and efficiency), so that

it is easy to sacrifice property interests to contracted target completion. This is also one of the sources of the inability to stop the shortsighted actions and material tendencies of enterprises despite repeated attempts. In addition, efficiency target contracting has the defects of difficult choices to be made and too much negotiating flexibility to varying degrees in areas, such as the setting of contracted bases, the number of targets, and the length of contracting. Whereas the success of Capital Steel's contracting is due precisely to its sort of unconscious assets contracting (which is not very clear to either party to the contracting), and even its including of assets proliferation contracting factors (with contracted agreements providing for equipment upgrading and replacement, no state investment, and enterprise self-development). Its major distinguishing features are as follows:

A. Capital Steel's contracted targets or contracted contracts are conspicuously programmed and comprehensive. Capital Steel has only one substantive directly contracted target with the state, i.e., guaranteed progressive tax and profit payments to the state (increasing at a rate of 7.2 percent a year). The state's conditions are: (1) no further state investment, and (2) permission to sell 15 percent of its products on its own. Thus, in order to maintain and develop its existing enterprise profit structure, Capital Steel has to accomplish such things as achieving a realized profit growth rate of 20 percent a year, using most of its retained profits for reinvestment, replacement of equipment, and enhancement and development of reserve strength, using internal contracting, guarantee, and examination methods, mobilizing all personnel to share in the risks, enhancing management, and developing markets. All of these are programmed targets for overall management and administrative motivation, so that "once they are grasped, everything else will fall into place."

B. Capital Steel's contracting periods are 15 years. This not only conforms to the heavy industrial enterprise characteristic of a long production-results cycle, but also brings extra long-range and steady enterprise growth, stimulates enterprise motivation and restraint, and amounts to pointed assets contracting.

C. Capital Steel's contracting basically excludes random administrative interference, changes its enterprise profit expectations from dependence on the state to reliance on markets and its own efforts, and gives it greater and more complete management decisionmaking power.

D. Its most important and also most enlightening creation is that its suiting of jobs to abilities, through its installation of factory committees, its general director responsibility system led by factory committees, and its breaking down of the boundaries between cadres and workers, has aroused a sense of responsibility of being the masters among its staff members and workers, and formed a common value mentality of being "Capital Steel workers" and "Capital Steel people." It should be particularly emphasized here that the makeup and planned duties of its factory committees have actually

enabled them to become a new type of fledgling corporate agency that exercises the missions of assets management and proliferation on behalf of the state. While they still need to be improved, perfected, and granted legal status, they have actually already become fledgling holders of corporate property rights who are playing a key role in Capital Steel's assets contracting. This shows that correctly summing up and improving on Capital Steel's experience not only will indicate the way in which to improve the contract management responsibility system, but also will provide a valuable lesson in dovetailing future reform objectives.

### **3. While Perfecting the Contract Management Responsibility System, We Should Gradually Create the Conditions To Develop Shareholding System Experiments and Carry Out Property Rights System Reforms.**

Even Capital Steel's perfected assets proliferation contracting will still not be our enterprise reform goal model. This is because this kind of assets proliferation contracting actually still retains certain remnants of the old system which, if continued, will still produce new conflicts with the development of a commodity economy. These are expressed mainly as follows: (1) It still prescribes an administrative contracting structure, in which government and enterprise responsibilities have certainly not been truly separated. (2) It still has a single major owner. While that might be all right for a few enterprises, a single major owner lacks objective judgment restraint forces as a general model, and still might regerminate the original defects of the old system. (3) Its property rights system is still imperfect and poorly suited to the operating forces of a commodity economy. Thus, even though this reform can enhance enterprise vitality and alleviate the abovementioned factors in our declining economic efficiency, it still does not have the tremendous force of a contemporary property rights system and thus, would be hard to use to put our whole national economy onto an orderly course of operation.

A model enterprise system that would be appropriate for a contemporary property rights system would be a limited shareholding company system. As conducting shareholding system experiments in qualified enterprises would be very valuable in helping to develop experience in trying to weld public ownership to shareholding, and would be a prototype for future public property rights reform, a key way to increase enterprise reform remains to constantly advance and expand shareholding experiments, and then to popularize them gradually. There would be no harm in saying that this path would be even more positive, because it would not require going through the stage of the contract management responsibility system.

But whether it is perfected contracting or expanded shareholding experiments that we are talking about, until a scientific property rights system is established and perfected throughout our society, it will remain impossible to basically resolve the problems involved in developing a socialist commodity economy and fully raising

our economic efficiency. As without it our best case scenario could be only to achieve certain limited partial or short-term objectives, property rights reform will be an unavoidable and irreplaceable step that we will have to take sooner or later to increase enterprise reform, regardless of which model is chosen through long-range studies. Moreover, it will be only when we have resolved great issues, such as proving the operating effectiveness of a property rights system with the distinctive characteristics of the socialist public ownership that we have already evolved, raising our economic efficiency fully and steadily, carrying out assets replacement and proliferation steadily, and creating more and better material wealth steadily, that we can achieve the ideal solution, bring the advantages of socialism into full play, and make our people's lives happier and more satisfactory. Such a future would be desirable.

### Enterprises Face Pricing Problems

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[Article by Shen Zhaoxing (3088 0340 5281), Li Fujun (2621 3637 6511), Yang Jinhai (2799 6855 3189), and Liu Degui (0491 1795 6311): "Price Obstacles Impeding Efforts To Revitalize Large- and Medium-Sized Enterprises; Solutions"]

## I

[Text]

In the midst of the current market slump, there are several reasons why large and medium size enterprises lack vitality. Some factors are related to prices.

1. Authority to regulate prices is excessively centralized for some commodities. For example, of the 23 products manufactured by 13 factories in the machine building and electronics system in Changde Municipality (Hunan Province), the price of 17 of them (74 percent) are regulated at the ministerial level. Prices for 5 (29.4 percent) of the 17 products have not been readjusted since 1984. The state set a maximum floating price of 3335 yuan in 1984 for the 28 ZLB-70 water pump, which is manufactured by Machinery Factory No. 71 in Changde. Production costs at the time were 2360 yuan, but they increased by a factor of 3.8 over the ensuing six years, reaching 9000 yuan by 1989. The enterprise could clearly not afford to sell the product at the mandated price. It was not until August 1990 that the Ministry of Machine Building and Electronics raised the price sharply, nearly quadrupling it from 3315 yuan to 13225 yuan. However, the actual market price of the product is around 9000 yuan, or only about 68 percent of the adjusted price. This shows that when authority to regulate prices is excessively centralized, prices are inevitably readjusted too late or by to an inappropriate degree, and they become completely divorced from production costs and the capacity of the market to support the price. This restricts the development of enterprises.

2. Some commodity prices subject to state control are too low. The formulation and readjustment of prices for some commodities are completely divorced from the

value of those commodities. This reduces the economic benefits accruing to large and medium size enterprises. This problem is particularly severe with machinery and electronic products in Changde Municipality. Among 23 products in this category produced by the 13 machine building and electronics enterprises in the municipality, prices for seven of them (3.4 percent) are too low. The state fixed the maximum floating price for number 207 bearings, which are manufactured by Changde Municipal Bearing Factory, at 2.8 yuan per set in 1984, while actual production costs plus sales tax per set in 1990 amounted to 6.17 yuan, which resulted in a loss of 3.37 yuan for every bearing set sold at the fixed price. The annual production quota of 300,000 bearing sets means a loss of 1,011,000 yuan. After the implementation of state prices (including floating prices), some products have not even generated enough funds to offset the cost of their raw materials. The state has set a maximum floating price of 4510 yuan for the 3 W-1.6/10 air compressor, which is manufactured by the Changde General Machinery Factory, but the steel, cast iron, and electrical equipment that go into the machinery cost 5210 yuan. For this reason, the more the product sells, the more money is lost. Enterprises are complaining that they have the capacity to produce goods for the state plan, but they cannot afford to sell them.

3. The supply of raw materials for the manufacture of products within the state plan is not dependable. For some time, there has been a shortage of the major raw materials needed for the manufacture of products mandated by the state plan. There are several reasons for this situation. First, state allocations are insufficient. The Changde Municipal Bearing Factory requires 1100 tons of steel for the manufacture of products called for by the state plan, but the state has only allocated 500 tons of steel to the factory, less than half of what is required. Second, the state has failed to meet its own allocation plans. The actual amount of steel allocated last year to the Changde Municipal Textile Machinery Factory was 230 tons below the allocation target of 2274 tons. Third, allocated materials frequently fail to match specifications. Last year, 11.74 percent of the steel provided by the state to Changde Municipal Textile Machinery Factory did not match specifications.

4. Prices for raw materials and energy resources have risen too quickly. In recent years, prices for some raw materials and energy resources within the state plan have been readjusted many times. For example, the average price for metals within the state plan have doubled since 1984, and in the most extreme case has risen by 117 percent. The average price of coal produced within the state plan by coal mines under the jurisdiction of Changde Municipality has nearly doubled since 1984. Sharply rising prices for raw materials and energy resources have caused production cost for manufacturing enterprises to skyrocket. Production costs for the 20 ZLB-70 water pump, which is produced by Machinery Factory No. 71, have risen by a factor of 3.6, from 1330 yuan in 1983 to 4770 yuan. Enterprises have been unable to absorb these rapidly rising costs and have

attempted to pass them on to the market, but the market has been unable to sustain them, so enterprises have had to cut prices to get rid of their products. The result has been a clear decline in economic benefits. The textile industry is being squeezed on both sides by policy-related price rises for raw materials and price rises for textile products which have not yet been carried through to completion. Last year, unprecedented losses totalling 20.46 billion yuan were suffered by 59.46 percent of the textile enterprises in Changde Municipality. Of the 13 factories in the municipality's machine building system, the number suffering losses increased from one in 1989 to eight in 1990, and the total of these losses increased by 2.32 billion yuan.

5. Production of some commodities has exceeded sales, which has resulted in price cutting. Some sectors have developed blindly, and production has outpaced sales. Inventory of textile products in Changde Municipality last year increased at an alarming pace. Inventories of cut yarn increased 22.8 percent from the beginning of the year to the end. Inventories of cotton cloth increased by a factor of 3.1 over the previous year, and inventories of printed and dyed cloth increased by a factor of 3.9 over the previous year, with 158 million yuan worth of stockpiled inventories. Because products are piling up, funds cannot circulate and some textile enterprises have had to cut prices in order to stir up business. For example, the state has set a price of 1470 yuan per ton for 32S all-cotton cheese, but Tao Textiles in Hunan is currently selling it for 13,300 yuan. There has been a price war between enterprises, so economic benefits have naturally tumbled. Profits at Tao Textiles were 79.8 percent lower in 1990 than in 1989.

6. The readjustment of tax and interest rates have not been coordinated with price policy. In recent years, this has increased production and sales costs for enterprises. For example, Changde Municipal Metal Corporation had an average of ten million yuan in outstanding loans at any given time during 1990, and when the monthly interest rate for state loans was increased from 0.66 percent in 1989 to 0.78 percent in 1990, the corporation's debt service burden grew by 144,000 yuan. However, management fees collected for handling the marketing of metals were not adjusted correspondingly, so the enterprises were saddled with the loss. The retail sales tax also rose from 3 percent to the current 5 percent. If commodity prices are not adjusted correspondingly, there will be a direct impact upon economic benefits to enterprises.

## II

In order to revitalize large and medium size enterprises, price departments must adopt effective short and long term policies. The most pressing requirement now is to do a good job in the following four areas:

1. We must change our way of thinking and become more service-oriented. Prefecture and county price organs must be converted from regulatory agencies into service agencies. They must frequently visit enterprises,

study issues in depth, and do everything within their authority to resolve serious price difficulties in a timely manner. They must set themselves a goal of responding within a week to all requests and reports from enterprises, and when special circumstances arise, their response must not take longer than two weeks. They must help enterprises set up healthy internal price systems and become more adaptable to market economics and the law of price. The work of cost research teams must be expanded so that they can study and analyze the enterprise costs and provide useful price information in a timely manner, thereby helping enterprises to restructure, improve management, and strengthen their competitiveness. At the same time, they must abandon their one-sided work method of investigation and punishment. They must combine this aspect of their work with service-oriented activities. They must also seriously investigate the problem of exorbitant fees charged by government agencies, a problem about which enterprises have complained bitterly. They must gradually introduce the "double trust" activities into industrial enterprises and strengthen the mechanism of self-restraint.

2. We must clarify the goal of price regulation and decentralize price regulatory authority. In particular, we must accord the appropriate amount of authority to price organs at the prefecture and county levels. We must gradually establish a rational price formation mechanism and price regulatory system, and gradually implement a system in which "the state regulates prices for commodities and services which have a key impact upon the people's welfare, and the market regulates prices for other commodities and services."

3. We must work in harmony with the market and readjust our strategy of "regulation and decentralization." Currently, price management must carry out a multidimensional readjustment of the process and results by which we decide what degree of "regulation or deregulation" the market mechanism requires in order to improve understanding of markets among the enterprises and to promote equal competition. Our methods must be flexible. For commodities where supply exceeds demand, prices must be deregulated at the right time and to the proper degree. For the commodities where supply falls short of demand, we must establish a maximum price level and control interest rates within the industry in order to prevent blind development and great fluctuations.

4. We must do a good job regulating the price of key capital goods and prevent costs from skyrocketing. Enterprises which produce key raw materials must fulfill production quotas and assure on-time delivery. The state must strengthen its management of the prices of such key means of production as electric power, petroleum, coal, and steel. It must exercise proper timing in carrying out price readjustments. It must take into consideration the economic benefits of production enterprises as well as the capacity of processing enterprises to absorb these adjustments. Furthermore, these adjustments must not be too drastic, and they must be carried out gradually

over an extended period of time. The two tracks in the "dual track price system" must be brought together as quickly as possible so as to keep people from taking goods allocated at state prices and selling them for higher prices outside the plan, thereby throwing the market into chaos. When key capital goods are stockpiled in excessive quantities at a production enterprise for three months or more, we should allow the enterprise to be sell them at negotiated prices, and the resulting income differential to enterprises could be used to offset the production costs. Enterprises should be allowed to return raw materials which fail to meet their specifications. As long as a materials enterprise fulfills supply quotas, it should be allowed to take key capital goods which have been stockpiled for three months or more and sell them at negotiated prices. The extra profits thereby derived could be used to compensate enterprises supplying goods within the state plan, or they could be converted into price deregulation funds.

5. We must establish a link between the state plan and prices, and revitalize production marketing. Production enterprises that have obtained all the necessary raw materials for products which they produce within the state plan must sell these products at the state price. Production enterprises which have been unable to obtain all the necessary raw materials for such products must request that the planning department meet with the relevant government agencies in charge in order to readjust the state plan in a timely manner. When a production enterprise is forced to buy raw materials at negotiated prices in order to produce goods for the state plan, these enterprise should be allowed (after receiving approval from the local price department) to calculate the extra price paid for these raw materials as part of their production costs. When the production enterprises produce goods for the state plan for which no particular work unit has been lined up to take delivery of these goods, or when a work unit does not take delivery on time, these enterprises should be allowed to sell such goods for their own account.

6. We must make sure economic regulation and control is carried out in an organized manner, and policy must be coordinated. Economic levers (taxes, credit, etc.) and price levers both play a role in macroeconomic regulation and control, and they are closely interrelated. The adjustment of taxes and interest rates directly affect enterprise costs as well as price levels. For this reason, price departments must participate actively in the formulation and readjustment of tax and interest rates, and they must give full consideration to expected price changes. As the state readjusts tax and interest rates, it must readjust price policies in an appropriate and timely manner so as to assure a reasonable level of profits for enterprises.

7. We must exercise strict regulation of monopoly prices and support equal competition within industries. Price levels in such monopoly industries as electric power, petroleum, and rail transport directly affect costs and prices in other industries. Monopoly commodity prices

must be regulated by price departments in conjunction with government regulatory agencies in charge of the industries in question. We must know exactly what we are doing when we formulate and readjust monopoly commodity prices. We must fully consider the many chain reactions set off by our decisions, and we must assure a rational distribution of economic interests between monopoly industries and other industries.

### **Large, Medium-Sized Enterprises' Pricing Problems**

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[Article by Cao Jianjun (2580 1696 6511) and Liu Xuming (0491 2485 2494): "Some Thoughts on Making the Large- and Medium-Sized Enterprises' Prices More Flexible"]

[Text] The large- and medium-sized enterprises are the mainstay of China's economy. How to utilize the price lever to enliven those enterprises is an important issue for those who work on this country's pricing policies.

### **I. The Pricing Problems Facing the Large- and Medium-Sized Enterprises**

1. *The large- and medium-sized enterprises face a greater share of state-set prices which are less flexible.* Planned prices play a larger role among the large- and medium-sized enterprises, and these prices tend to be less flexible. In recent years, the restructuring of the economic system and the price reform have brought dramatic changes to the macroeconomic environment, to the market situation, and to the production conditions, and the most significant change has been the soaring production cost. The existing state-set prices do not reflect these changes, and as a result, there are huge "policy-related losses" in the production and operation links, and the same amount of labor no longer generates the same amount of profit.

2. *Some enterprises' inputs are more costly than the goods they produce.* The price of input is usually compared to the price of output in terms of the total price. The two factors that affect the total price are: (a) The proportional shares of planning versus market regulation; (b) the general price level. The best combination for an enterprise is one in which a large portion of its inputs are under planned prices and the price level is relatively low while a large portion of its output is under market regulation and the price level is fairly high. The actual combination may vary, but production enterprises that use more capital goods will often find that a larger portion of their output than their inputs are under the mandatory plans, and from the outset, this policy is not to their advantage. Enterprises generally report that they actually receive only 60 to 70 percent of the planned raw materials they need, and often they receive only the types of materials of which they are not in urgent need. In order not to waste their planned quota, enterprises are forced to accept those planned products which also cost them a sum of storage fee and interest on funds being



used. In the course of restructuring the pricing system, because of a chain reaction, the prices of many enterprise inputs have gone up, which has made the price of enterprise input even more out of line with the price of output.

3. *The double-track pricing system makes enterprise accounting inaccurate and is also an important factor behind enterprises' improper pricing behavior.* Due to the wide gap between planned and market prices, at a time of rapid economic development and in a relatively tight macroeconomic environment, enterprises will make every effort to increase the portion of higher-priced market-regulated goods in order to reap more profit. But under the conditions of economic contraction and market slump, enterprises will turn to the government instead and demand that the planned prices be raised to offset the loss incurred in the market. Such behavior hides the fact that the types and the quality of products they produce are not meeting market demand. If this attempt to "make a profit by raising prices" does not work, enterprises are doomed.

4. *There is a conflict between the rigid contracts and the need for flexible prices.* Currently, when enterprises enter into the responsibility contracts, they must fix the amount of profit tax for a specific period of time. They cannot impute the estimated price change into the contract, nor can they readjust the figures as soon as prices change; otherwise the contracts will lose their legal clout. Since the profit tax is fixed, a price change may cause enterprises' realized profit to be larger or smaller than their contract base. If the profit is larger than the contract base, it may appear to be a windfall for enterprises, but a price change is but a shift in value and does not create new value. One enterprise's profit is another's loss, and the state loses the profit tax due from both enterprises because of such price change. On the other hand, if profit is smaller than the contract base, enterprises may suffer huge losses, but they will not necessarily try to improve their operation to offset this adverse external change in condition. Instead, they may treat this "change in objective condition" as an important bargaining chip when they ask the department in charge to readjust the contract base or find some other ways to get financial support from the government. Thus, we often hear from the contracting enterprises that, one, because of higher price of raw materials, production cost is higher, so that enterprises' realized profit and retained profit are lower, which in turn have dampened their production enthusiasm; two, most large- and medium-sized enterprises have limited power to set prices and are allowed to market too little of their own products. These prevent them from utilizing the market mechanisms effectively to regulate production, and this in turn has offset the positive effects of the contract responsibility system.

Furthermore, there is no systematic way to determine enterprises' contract base, the incremental profit tax rate, the distribution of retained profit, the link between wages and profits, the ratio between mandatory planning

to actual productive capacity, and the portion of planned goods enterprises are permitted to market on their own. Under the circumstances, of course, no one has given any thought to linking prices to the contract system.

5. *Taxation is not coordinated with pricing.* Currently, more categories of products are subject to enterprise circulation tax than ever before, the tax rate is higher, and enterprises still have to pay taxes on their after-tax retained profit, and adding the other appropriations and charges, many enterprises are going under because of these burdens. For example, in the automotive industry, there are five types of tariffs which are not included in the circulation tax, and most enterprises have to pay 35 different types of taxes, so that after deducting and paying a variety of taxes and fees, for every 100 yuan retained profit, every 100 yuan depreciation fund, and every 100 yuan in loan funds, enterprises only receive a net of 6.54 yuan, 32.24 yuan, and 39.71 yuan, respectively. Out of the sum of 300 yuan, only 78.49 yuan is actually available for use on enterprise development. Take the Capital Iron and Steel Company as another example. The circulation tax it paid as a percentage of its realized profit tax [as published] came to 52.6 percent in 1988, 64.2 percent in 1989, and 82.7 percent in January 1990. There is a close relationship between taxes and prices. As taxes are being raised, many enterprises will shift a portion of the tax burden to the consumers by raising prices, and the result is a general rise in the price level. Since most large- and medium-sized enterprises must comply with mandatory prices, they cannot shift the increased tax burden to someone else by raising prices. Although this plays a positive role in stabilizing prices, because the tax increase exceeds what enterprises can afford, these enterprises are losing their retained profit, making it impossible for them to fulfill their contracts.

6. *The large- and medium-sized enterprises' depreciation allowance is too low, and because depreciation represents the replacement price of their fixed assets, this has an adverse effect on their upgrading and replacement of facilities and equipment and has slowed enterprise technological transformation.* Depreciation cost is one component of cost-pricing. In 1979 the state stipulated that the following enterprises may keep all of their depreciation funds: Enterprises with less than 1 million yuan's worth of fixed assets, enterprises under the jurisdiction of the commercial, grain, cultural and foreign trade, supply and marketing cooperative, post and telecommunications, goods and materials, and construction departments, and timber-felling and mining and excavation enterprises which obtain their renovation and transformation funds based on output. All other enterprises may retain 50 percent of their depreciation fund and hand over 30 percent to the central government and 20 percent to the local treasury or to the department in charge. Meanwhile, it is stipulated that the centralized depreciation funds will be returned to enterprises to be spent on key construction projects.



The above stipulations make the amount of depreciation funds obtained by the large and medium-sized enterprises and by the small enterprises unequal. Since most of the depreciation funds have to be handed back to the higher authorities, and the depreciation rate is fairly low,

no wonder the large- and medium-sized enterprises are operating with obsolete equipment, technology, and technique. The table below shows the conditions of equipment in China's large- and medium-sized enterprise today:

**The Condition of Equipment in China's Large- and Medium-Sized Enterprises**

Item	Year Installed-Equipment Was Manufactured				
	1980's	1970's	1960's	1950's	Pre-PRC Era
Industry (national %)	32.99	41.03	13.43	8.6	0.95
Engineering Industry (national %)	24.73	46.46	17.97	10.51	0.33

Data based on information gathered in an industrial survey.

## II. Causes of the Problem

The pricing problems in the large- and medium-sized enterprises may appear to be caused by changes in external conditions, but in fact they are caused by many policy-related and system-based factors.

### *1. The large- and medium-sized enterprises are disadvantaged by the pricing policy.*

First, China's system of planned commodity economy is drawn up in such a way that more planned regulations are put on the large- and medium-sized enterprises while leaving the small enterprises to market regulations. In terms of the pricing policy, this means more of the former's products are subject to planned prices, and more or all of the latter's products are regulated by the market. Relatively speaking, the pricing policy is much less flexible with the large- and medium-sized enterprises than with the small enterprises.

Second, the fact that prices are determined by different state bodies has resulted in policy-based disparities. The prices of most goods produced by the large and medium-sized enterprises are determined directly at the central level or by the province-level, the autonomous region, or the municipal-level governments. Meanwhile, goods produced by the small enterprises are priced by lower-level government departments. To stabilize prices, the state often controls the price of goods which have greater impact on market prices, and inevitably the large- and medium-sized enterprises are the prime targets.

### *2. The principle of cost-pricing has its inherent flaws.*

Generally speaking, when the state determines or readjusts a price, it often takes into account the changes in production cost, or at least it will make cost its primary consideration. Naturally, cost is the most basic, the indispensable basis in determining prices. However, making cost the prime factor in pricing has a number of flaws:

(1) The principle of cost-pricing requires that there exists a way to control cost. Practice proved that relying on government policies to control cost externally is not the most effective approach. The loopholes in cost control will continue to push product prices upward.

(2) The principles of pricing based on cost and pricing based on supply and demand in the market are in direct conflict with each other. For example, if enterprises' production cost is rising but the market is weak and sales is sluggish, the set-price will be unrealistic, and enterprises will not be able to use it. However, if the market is brisk, the fixed price may benefit the producers and businesses, but the consumers may be paying for some unnecessary enterprise expenses, and this will lead to a chain reaction, causing enterprises to employ high-priced inputs to produce low-priced outputs, which in turn will create a double-track system where high prices lead and chase each other, enticing enterprises to seek "higher prices efficiency."

(3) Enterprises have different costs, and if there is a big difference between enterprises' actual cost and the cost used to determine prices, they will be competing on unequal footing, and cost will become another excuse for enterprises to demand an increase in prices.

The fact of the matter is, the state has no choice but to adhere to the cost-pricing principle. When costs are rising, it is impossible not to raise prices. Although to an extent China's current enterprise operating mechanisms still encourage enterprises to seek profit, they do not afford enterprises the right and the responsibility to take care of their own losses as they drift in a sea of commodities, because if enterprises must digest and absorb the cost increase, many will lose money and go bankrupt. China lacks the bona fide enterprise bankruptcy and social protection mechanisms, and therefore enterprises have always tried to stay on the "high road" when it comes to the relationship between cost and prices.

### *3. There is little coordination between the existing planned system and market regulation.*

China's existing planned system has two direct impact on enterprises: First, the system tries to create an in-kind balance. The state hands down many mandatory plans to control enterprise production and sales, which renders enterprises without the flexibility to face the market. In recent years, although this kind of mandatory planning has been sharply curtailed, the long-time practice of in-kind balancing has created a kind of protective external environment, and once enterprises lose this protection, they cannot immediately adjust to the

market demands, and if the share of market regulation is increased and so on, it will hamper the state's effort to maintain in-kind balance at the macro level. Thus, the state must impose some control. Second, our financial system is based purely on income and expenditure. The state's revenue comes mainly from the profit taxes delivered by the large and medium-sized enterprises. In particular, during a period of rapid economic development and when the state has important investment responsibilities, state revenue is a priority item. This is why when enterprises enter into the responsibility contracts, they must guarantee the state's revenue. For this reason, various taxes and fees will tend to exert more pressure on the large- and medium-sized enterprises. After handing over their profit tax, enterprises have nothing left to develop production with, and many enterprises' retained profit is only 5-10 percent of their net income, with per capita retained profit of 400-500 yuan. Some enterprises end up handing over even their depreciation funds. Whenever enterprises have a little profit, they will be asked to pay all sorts of fees and social apportionment. As a result, for many enterprises, after paying the necessary expenses, there is nothing left for expanded reproduction.

### III. Some Suggestions on How To Make the Large- and Medium-Sized Enterprises' Prices More Flexible

In view of the existing pricing problems in the large- and medium-sized enterprises, we suggest the following pricing policy to improve their pricing environment:

#### 1. *We should implement a more flexible price management system toward the state-set prices.*

To improve the lack of flexibility in the state-set prices, we can do the following: (a) On top of the existing state-set pricing system, we should allow enterprises to have some power to vary prices, perhaps within a 5-10 percent range. (b) We should give the localities the right to vary the price of some products. For example, let the local government departments vary the price by 10-15 percent if enterprises submit an application and if local conditions so warrant. (c) We should increase the share of goods enterprises may sell on their own. The exact proportion should be based on the state's industrial policy and the goals of price reform. Enterprises may send their requests to the commodity price administrations or to the departments in charge for evaluation and approval, or a consultative committee may be formed to evaluate enterprise proposals once a year, and a contract may be drawn to fix the shares.

#### 2. *The cost-pricing format should not be the only format.*

There are three ways to determine prices, and all should meet the needs of the state's economic plans: Products which are permanently and closely tied to the state plans should adhere strictly to the state-set prices; products which are temporarily tied to the state plans and which have important effects on our economic life should follow a broad spectrum of different kinds of state guidance prices. Products which are directly tied to changes in supply and demand in the market should

follow the market regulation price. No matter which pricing format is used, the government should reserve the right to choose the pricing format and to use administrative measures to intervene if market conditions should change.

As for how prices should be determined, first, we must determine the target price of a product and then make policy adjustments based on the current price and the target price. In determining the long-term target price, we must consider the fixed cost, the variable cost, and the long-term marginal revenue. In determining the short-term target price, we should primarily consider the variable cost, marginal revenue, and the use of circulation funds and make sure that the price will enable enterprises to recover their circulation fund and obtain a reasonable profit. The government must have a policy to coordinate the long-term target price and the short-term target price.

#### 3. *We should reverse the disadvantaged pricing position large- and medium-sized enterprises are in.*

We can incorporate the unique characteristic that the large- and medium-sized enterprises have more planned products into the management of the double-track pricing system to mitigate the disadvantaged position these enterprises are in. (a) We should rectify the pricing order in the circulation sector and minimize the number of middlemen and make the supply of goods more direct so as to cut down on "losses" between the plant-exit price and plant-entry price. (b) Products under the double-track pricing system which are qualified to implement a one track system should have the tracks merged. If a product is being merged into the planned system, we should readjust its price properly. If a product is being merged into the market track, we should reduce the affected enterprises' share of mandatory planned products. (c) For the handful of enterprises that produce goods which have a direct impact on the state's financial revenues and on our daily life, we should adopt a "double guarantee" measure, that is, while enterprises must guarantee delivery of the mandatory planned products, the good and materials and the loan funds they need are also guaranteed in return. (d) For most enterprises that are facing a situation in which the price of inputs has been increasing faster than the price of output, if there is room for maneuvering in the annual price control norms set by the state, we should gradually raise the price of output or reduce the amount of mandatory planned products. (e) If external factors have led to an all-out, dramatic increase in the price of input and put excess pressure on enterprises, the government should intervene by imposing a price limit or a composite price to curb the excess price increase. Conversely, if market prices should tumble, the government should take steps to help enterprises to weather the situation without creating an artificial obstacle in the market.

#### 4. *We should take the unique characteristics of the contract management responsibility system into consideration when implementing timely price readjustments.*

While preserving the uniformity of the pricing policy, we should link the price readjustments to the responsibility contracts. First, when we enter into the responsibility contracts, we should project the magnitude of change in the price of input and output. The projected value will be enterprises' planned price, and the difference between this price and the actual change in price (based on the price index made public by an authoritative organ of the state) can be eliminated by readjusting the planned price within the scope authorized by the state's pricing policy. For example, if the projected price of input is 2 percentage points and the projected price of output is 5 percentage points below the actual prices, within the scope permitted by the state, the price of output may be raised or the enterprises' market regulation share may be raised to take care of the 3 percent difference. Conversely, if the projected output price is higher than the actual price, and if this difference is larger than the difference in input prices, depending on enterprise's actual profit level, the state may either take a fixed percentage of the resulting profit, or it may increase the share of planned products.

*5. We should coordinate the other economic policies and the pricing policy with the economic situation.*

From the point of the pricing policy and the pricing situation, if the pricing environment is favorable to the large- and medium-sized enterprises, we will need policies that encourage enterprises to expand their operation and increase their staying power. We can increase enterprises' profit tax by a proper amount while making it easier for them to obtain loan funds, investment funds, and depreciation funds. In particular, we must draw up policies that are skewed toward the large- and medium-sized enterprises. Conversely, if the pricing environment is hostile to the large- and medium-sized enterprises, besides readjusting the pricing policy itself, we must draw up preferential policies to substantially reduce enterprises' burden, energize the market, and increase demand. For example, we can reduce taxes or change the way tax increases are being implemented by applying the principle of "giving before taking." We can readjust or eliminate various improper taxes and apportionment. While keeping the interest rate above the rate of price increase, we can lower the interest rate as a way to reduce enterprises' interest burden. We can increase enterprises' profit retention percentage and specifically raise the percentage of enterprise production development funds. We can increase society's total demand at the macroeconomic level by readjusting the industrial structure and the product mix. This means making adjustments in currency issuance, fiscal expenditure, and investment plans, eliminating various market barriers and pricing barriers, and upholding the principle of market unity. We should perfect the existing enterprise mechanisms and actively set up pilot projects to promote various enterprise systems which have proven effective. We must do our best to mobilize the enterprise workers' enthusiasm.

### Shareholding Seen in New Construction Projects

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[Article by Shi Ming: "A Major Reform in How Investments in Capital Construction Are Made"]

[Text] Relevant government departments are now working out administrative approaches based on public ownership shareholding to apply to new capital construction projects with the intention of implementing them in 1991. The aim is to further strengthen administration of investments for capital construction and to solve the problem of repayment after projects have gone into operation. The major elements are as follows:

#### 1. Implementing a Shareholding System

To arouse the enthusiasm of investors; encourage a sensible marriage of investment factors with those of production; and define investor responsibility, power, and benefits, a public ownership shareholding system will be implemented for "assorted" investments in newly begun projects.

Enterprises (companies) which are part of the shareholding system are joint ventures. They qualify as economic legal entities and have the main part of their investments owned by the whole people, that is, the central government, local governments, and enterprises. They use the methods of the shareholding system in the joint conclusion of contracts, joint raising of funds for construction, joint operations and management, and joint assumption of risk. Investors must sign legally binding economic contracts, formulate enterprise (company) rules and regulations, and establish a board of directors or management council. Then, on this basis, the responsibilities, power, and benefits of investors must be defined. Investor responsibility for debt is limited by the amount of capital they have in shares.

The shareholding system forms enterprises (companies) in the shareholding system in proportion to total investments. This means that an investor's funds are, by contract, a proportion of total investments allocated for a project's implementation. Specific projects can also form enterprises (companies) in the shareholding system in proportion to registered capital. This means that an investor's funds are, by contract, a proportion of the registered capital. Funds required for construction projects, except for registered capital, are raised by enterprises in the shareholding system or by investors in proportion to registered capital.

Central government investment in the shareholding system can take the following forms: (1) central government operational funds for capital construction; (2) portions of various types of special project funds secured by the central government for use; (3) construction bonds and debentures issued and repaid by the state; (4) bank loans secured and repaid by the state; (5) foreign funds that are centrally borrowed and centrally repaid by

the state; (6) foreign funds centrally borrowed by the state, 30 percent of which are repaid by local governments and enterprises; and (7) other sources of funds the central government defines.

Local government investment in the shareholding system can take the following forms: (1) investments from local government budgets and other budgetary funds; (2) funds outside local government budgets; (3) portions of general-and special-purpose funds secured by local government for use; (4) bonds and debentures issued with the approval of local governments; (5) bank loans issued by the central government and used by local governments; (6) foreign funds centrally borrowed by the state, 70 percent of which are repaid by the enterprise; and (7) foreign funds borrowed and repaid by local governments.

Enterprise investment in the shareholding system can take the following forms: (1) prescribed funds raised by the enterprises themselves; (2) portions of general- and special-purpose funds secured by enterprises for use; (3) bonds and debentures issued with the approval of enterprises; (4) foreign funds centrally borrowed by the state, 70 percent of which are repaid by the enterprise; (5) foreign funds borrowed and repaid by enterprises; (6) investments the value of which comes from the results of an enterprise's advanced technology, from its trademark ownership, or from its patent rights; and (7) share certificates issued by enterprises to their own employees. The total amount of share certificates issued must not exceed 10 percent of a project's total investment; the share certificates cannot be sold on the market; and individual owners of the share certificates do not possess property rights.

Property rights to the assets of enterprises (companies) in the shareholding system are proportionally shared by investors. Share ownership and property rights for one party which have not been agreed to by the other party and approved by government departments in charge cannot be assigned or withdrawn.

In accordance with the principle of he who invests benefits, investors divide such things as output value, profits, taxes, and goods—in proportion to their participation in share ownership.

## **2. Administering Boards of Directors or Management Councils**

All projects in the shareowning system must establish a board of directors. All projects invested in by the central government or local governments must establish a management council. Boards of directors and management councils act as proprietors. They are totally responsible for the a project's operation both before and after it is commissioned. In principle, the chairman of the board is appointed by the largest shareholders, and the number of directors is determined by the investors through consultation. The directors are assigned by the investors through consultations and in proportion to their investment.

It is the responsibility of boards of directors and management councils to discuss and decide on project (enterprise) capital construction, examine and approve plans for distributing interest, and examine and approve the project's (enterprise) organization and personnel management.

Project (enterprise) managers are responsible to the board of directors or management council to thoroughly implement their decisions. They assume responsibility for meeting goals during their term of service.

Approved project proposals can be initially discussed by investors during elections to the board of directors or the management council or a preparatory group can be set up to raise funds for investment and to organize and report on project feasibility studies. Upon approval of project design specifications, a board of directors or management council is formally established. The state does not approve the start of work on any large or medium-sized capital construction project which is above quota and which should but has not established a board or directors or management council.

## **3. Prices Imposed for Repaying Principal and Interest**

Because of price distortions in certain basic industries such as energy, transportation, and raw and semifinished materials, the ability of construction projects in these industries to repay investments varies greatly. To enhance their ability to make repayments, the state must grant them preferential interest rates and provide a policy tilt. It must also impose prices to repay principal and interest on products produced and transport services provided after some of the new projects begun during the Eighth Five-Year Plan have gone into operation.

The industries mainly affected by the imposition of prices to repay principal and interest are those subject to state mandatory planning and unified distribution. The prices of some of their products and services are highly irrational.

Considering the characteristics of the electric power industry and its variety of pricing provisions, electric power projects determine the price of electricity to enterprises in the shareholding system according to their own conditions and relevant government provisions. After electrical power projects and coal projects have gone into operation, because of wide differences, they impose an average integrated price for each commodity. Transport enterprises in the shareholding system can, at the time they are repaying principal and interest, also levy temporary additional charges.

Excess profits from the newly imposed prices that accumulate after payment of principal and interest has been made are proportionally divided among participating shareholders and, because they are mainly considered by investors to be development funds, are used to expand reproduction.

Once they have gone into operation, projects for which prices have been imposed to repay principal and interests can no longer request financial compensation for their losses.

## PROVINCIAL

### Government Efforts To Improve Efficiency

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8 Sep 91 pp 1, 2

[Article: "Various Regulations of the Shaanxi Provincial CPC Committee and Shaanxi Provincial People's Government Pertaining to Diligent Implementation of the 'Enterprise Law' To Increase the Vigor of Large- and Medium-Sized Enterprises (6 September 1991)"]

[Text] Increasing the vigor of large- and medium-sized enterprises holds decisive importance in stabilizing the overall economic situation and the consolidating the socialist system. Guaranteeing enterprises' operating autonomy according to law is a prerequisite for the enlivening of large- and medium-sized enterprises. CPC committees and governments at all levels are to make diligent implementation of the "enterprise law" a key element in the invigoration of large- and medium-sized enterprises, implement a prefecture or municipality and a department leadership responsibility system, and make a complete inspection once each year in an effort to heighten consciousness of study, propaganda, inspection, and implementation of the "enterprise law" throughout society. Government departments are to regulate their own behavior in accordance with the "enterprise law," separate government administration from enterprise management and separate ownership rights and operating rights within the state-owned economy, perform leadership, coordination, supervisory, and service functions properly, genuinely put into practice administrative and managerial autonomy for enterprises, and reduce direct interference in enterprises. Conscientious efforts are to be made to clarify policies, laws and regulations pertaining to enterprises; any that conflict with the "enterprise law" are to be discarded. When problems are encountered in the implementation of those that are inconsistent with provisions of the "enterprise law," pertinent actions are to be taken to place them in a proper context. In cases where powers have been unauthorizedly taken away or retained, they are to be restored to enterprises in full. Where provisions that are a matter of principle cannot be readily implemented, specific methods of implementation are to be worked out. Should conflicts and frictions with other regulations arise in the course of implementation, they are to be fully coordinated and reconciled. Efforts are to be made at the same time to improve external conditions and increase internal control, thereby enabling enterprises gradually to enter into a benign cycle of autonomy in operation, responsibility for their own profits and losses, self-development, and self-limitation.

### 1. Maintenance and Perfection of the Plant Manager (or Director) Responsibility System for Better Building of Enterprise Leadership Teams

The plant manager (or director) is the legal representative of an enterprise. The ability of the plant manager (or director) is of decisive importance to the enterprise's production and administration. Enterprise leadership teams, particularly the selection of a plant manager (or director) must be regulated and provided for in strict accordance with the cadre "four modernizations" policy, and standards for the possession of both ability and political integrity. In enterprises where circumstances permit, a single person may hold concurrently the positions of CPC committee secretary and plant manager (or director), a special position of CPC committee deputy secretary separately provided for. Plant managers (or directors) are to improve constantly their personal political attributes and professional attributes. Plant managers (or directors) who are able administrators and who have performed outstandingly may succeed themselves in office without restriction as to the number of terms. Those who prove incompetent, or who are not suited to serve in the position, must be promptly removed. Since poor personal qualities and inept administration and management cause serious losses for enterprises, such plant managers must be relieved of their functions rather than be transferred to a similar position elsewhere or promoted out of the position.

The administrative deputy of an enterprise is to be recommended by the plant manager (or director) and, following a full exchange of views between the manager and the CPC committee, the recommendation is to be forwarded to higher authority for appointment or dismissal, or for employment or release from employment. Middle level leading cadres in enterprise administration are to be nominated by the plant manager (or director) or recommended by the CPC committee, and examined by the organization and personnel departments. Following discussion and decision by a joint conference of party and government leaders, the plant manager (or director) is to make the appointment or dismissal, or to employ or release such cadres. The appointment and dismissal of mid-level leading cadres in the enterprise's party group system also requires a hearing of views from all parties concerned, the CPC committee making a decision following discussion. The system whereby cadres must resign to avoid charges of favoritism is to be practiced in enterprises. In cases where there are kinship ties among leading cadres in a plant or between leading plant cadres and cadres in important mid-level positions, transfers out of the plant or reassignment is to be made. The enterprise CPC committee is to show diligence in improving the grassroots party organization, make full use of the role of party members as vanguard models, do a good job of staff member and worker ideological and political indoctrination, and assure and supervise implementation of party and government plans and policies in the enterprise. The enterprise CPC committee is to

perfect further the staff member and worker representative assembly system. Enterprise operating plans, long-range plans, and earnings distribution programs are to be reported to the staff member and worker representative assembly, the views of the masses given full hearing and respect in order to stir the zeal and creativity of the rank and file of staff members and workers.

Both the enterprise CPC committee and the staff member and worker representative assembly are to lend active support to the plant manager (or director) in his legal exercise of command authority over production and administration. The plant manager (or director) is to protect the position of the enterprise CPC committee as a political nucleus, relying wholeheartedly on the working class. The party, government, and workers are to support each other, closely coordinate, and work as one to run the enterprise well.

## **2. Intensification of Enterprise Labor System Reform, Actively Promoting the Labor Contract System for All Personnel**

The new system for the use of labor of "overall state direction, enterprise autonomy in the assignment of workers, the simultaneous existence of different forms, and labor contracts for all personnel" is to be promoted actively and steadfastly. Insofar as state prescribed labor plan norms permit, enterprises may themselves prescribe the number of workers to be taken on and the conditions of their employment as production and administration require. Under direction from labor departments, they may also openly invite job applications and select the most qualified for employment. Unless State Council or provincial government policies prescribe otherwise, enterprises have the authority to refuse to accept personnel they do not need.

The all-personnel cadre position appointment system and the dynamic optimization of labor in worker positions should be gradually advanced. The setting of sensible quotas for assigned personnel, and ability standards for positions should provide a basis for strict evaluation in accordance with the principles of open requirements, equal competition, the right of both the employer and the employee to select each other, optimum placement, and attainment of position through competition. Cadres may serve as workers, and workers may also serve as cadres. Staff members and workers who do not meet qualifications for a position may be tried out in a position or wait-listed in the plant. Personnel wait-listed in the plant, as well as personnel made redundant after positions have been filled or optimized may organize for collective training in order to improve their professional qualifications, the enterprise thereby building up reserve strength. Those found qualified following training should be placed at once or returned to their position. Those who achieved outstandingly in their studies should be rewarded in addition. Alternatively, either enterprise organization or voluntary grouping may be employed to open new avenues of production and administration, independent accounting instituted with

responsibility for their own profits and losses. Wait-listed personnel or redundant personnel in factories may resign to find their own employment elsewhere. Wait-listed staff members and workers are to be issued the standard wage for only one year. Thereafter, those who have still not been assigned to a position are to be issued a basic living payment in accordance with the prevailing labor contract system, which provides that workers awaiting employment are entitled to an insurance payment. Wait-listed and redundant personnel who do not accept a position offered to them may be dismissed by the enterprise.

Ideological and political work in enterprises should be intensified to instill in staff members and workers a sense of responsibility as masters in their own house who strictly perform their duties and exercise their rights according to law. Enterprises are to organize all staff members and workers for discussions in order to draw up plant regulations that are in keeping with the nature of the plant. Once these regulations have been considered and affirmed by the staff member and worker representative assembly, they are to serve as disciplinary regulations to be observed and consciously followed by all staff members and workers. In cases in which staff members violate discipline and refuse to change despite repeated admonition, enterprises have the right to punish them in accordance with pertinent state regulations, plant rules and regulations, and pertinent provisions of work contracts, including removing them from their positions, dismissing them, or firing them. Former staff members and workers of an enterprise who have been released following completing of their terms of punishment, and those released from education through labor who show themselves worthy and who have gone through testing and public evaluation may be reinstated in employment; however, no enterprise may be forced to accept them.

## **3. Expansion of Enterprise Production and Administration Autonomy for a Vigorous Energizing of Enterprise Sales Work**

Commodity, business, and materials units under command plan control are to carry out conscientiously the responsibilities and duties set forth in contracts on the basis of market demand and the sales contracts that the enterprise has signed. Industrial wares that meet quality specifications and products that meet needs, business and materials units are to procure at once. In the case of command plans for which no production and sales contracts exist, enterprises are empowered to make readjustments on the basis of market demand. No department may force an enterprise to execute a product plan for which no contract exists or to fulfill an output value from which it gains no benefit. Responsibility for losses incurred from the accumulation of products in inventory as a result of the "depression of output value" resides with the one making the decision.

For commodities on which the provincial government has removed retail price restrictions, wholesale prices and ex-factory prices are to be removed from restraints

as well, enterprises setting flexible prices on the basis of market demand and the principle of the state fixing prices. The system whereby the local government is petitioned to raise prices is to be abolished. State-set prices are to be applied to commodities for which the state sets prices and for raw and processed materials supplied through plan. Raw and processed materials are to be assembled by enterprises themselves. Unless the state specifically requires, enterprises may set prices on the basis of costs. Commodities for which the state has set prices that an enterprise has had on hand for more than three months and that cannot be readily sold may be sold at a lower price or at a negotiated price.

Sales works is to be invigorated, an all-points campaign to spur sales conducted. Enterprises are permitted to spend between .01-.03 percent of sales receipts for sales promotion, charging it to costs or expenditures. They may also implement sales contract responsibility systems in which contracting of product sales, contracting of loan recovery, and contacting of sales expenditures are the primary components.

Enterprises' procurement and sales forces are to be augmented for the building of a professionally skilled, highly capable, fine quality procurement and sales corps. Procurement and sales personnel must be regarded as production personnel, enterprises themselves determining on the basis of their own needs the number of sales agencies to be established, and the number of procurement and sales personnel to be employed. Outstanding procurement and sale personnel, like outstanding entrepreneurs and outstanding scientific and technical workers are to be given commendations and awards to create an atmosphere of respect throughout society for the work of procurement and sales personnel.

Enterprises are to be encouraged to break down business, departmental, regional, and ownership system demarcation lines for the development of industrial and commercial partnerships and industrial and trade partnerships, or combination industrial, commercial, and trade sales blocs. Enterprises are to be permitted to commission commercial enterprises to sell products on their behalf, to use stock share participation and mergers to expand their sales networks, extending themselves into the commodity circulation realm. Business enterprises are to be permitted to process the placement of orders directly with production enterprises on the basis of market demand.

#### **4. Bolstering of the Enterprise Self-Limitation Mechanism for a Resolute Halt to "Excess Distribution of Profits," and the Misrepresentation of Losses as Profits**

Enterprises are to handle correctly accumulations relative to consumption, the present relative to the long-term, and the relationship between state enterprises and staff members and workers, exercising complete responsibility for keeping intact and increasing state assets in their possession, and for business results.

Average wage increases for enterprise staff members and workers may not exceed the increase in the labor productivity rate. Issuance of wages and bonuses must truly be linked to economic returns. The situations must be changed in which wages continue to be issued as usual, bonuses taken as usual, and earnings always rising but never falling without regard to whether the enterprise's returns are high or low, or whether it is operating at a profit or a loss. Enterprises showing a decline in returns must reduce or halt the issuance of bonuses. Enterprises that cannot fulfill their current year contract obligations may not figure wages to be paid on the basis of returns, and they may not exercise the 3 percent staff member and worker universal rights [pujiquan 2528 4787 2938]. All enterprises incurring operating losses must halt the issuance of bonuses, and wages are to be cut between 10 and 20 percent depending on the extent of losses. Enterprises that figure wages on the bases of work efficiency are to place a floor under wages for the year at 80 percent of the base figure. In figuring economic return base figures for the following year, readjustments must be made using wage base figures of the same size.

Enterprises must figure the withholding of retained profits strictly in accordance with state-prescribed retained profit distribution percentages, making a distinction between funds slated for production and funds to slated for consumption, each kind kept separate to be used for the intended purpose in order to guard against and overcome any tendency to consume retained profits. All personal subsidies to staff members and workers made out of retained profits must be billed to the welfare and bonus fund. The energy and transportation key construction fund, and the budget regulation fund (or the "two funds," for short) are to be fairly apportioned between the two separate dedicated funds. Unless otherwise stipulated by the state, bonuses, and enterprise-initiated floating promotions and wage adjustments made at the enterprises' own expense must be paid, without exception, out of the bonus fund and the wage fund, with 60 percent or more of the enterprise's retained profits assured for developing production use. Anyone who unauthorizedly changes the retained profits distribution percentage or goes beyond the purposes for which dedicated funds are intended, or anyone who diverts funds slated for production use to the payment of bonuses and expenditure for consumption is to be punished for embezzlement of state assets, and the amount is to be deducted for repayment out of the enterprise's bonus and welfare fund within a fixed period of time.

Enterprises must report factually the results of their operations. Whatever is to be figured for withholding should be figured for withholding in full, and whatever should be amortized should be completely amortized. There should be no charging off to accounts willy-nilly, pretending profits when there have actually been losses. When nothing or too little is withheld for the depreciation fund, for the major overhaul fund, and for new technology development expenses, the treasury will collect it. Enterprises that practice fraud and misrepresent losses as profits are to be resolutely pursued for the



return of bonuses they have issued, their legal representatives and personnel concerned held responsible, and the enterprise required to assimilate the potential loss within a certain period of time.

#### **5. Conscientious Implementation of the Principle of Distribution According to Work Overcoming Egalitarianism in Distribution**

Within the limits of the pre-set total wage bill, enterprises may themselves decide to express wage and bonus distribution methods included in the principle of distribution according to labor. Following approval, enterprises having requisite conditions may institute a position and skills wage system, using evaluation and testing as a basis for setting work compensation for different positions and different work quality. A wage may be fixed for each position, and with each change in position, pay and benefits may change. Thus, greater wages would tend to be paid for positions requiring high skill, intensive labor, and heavy responsibility, as well as those performed in a poor work environment. More should be done to check the labor norms of staff members and workers in positions, the work positions of those having a poor work attitude and who do not complete their production tasks being reshuffled and their wages being determined anew.

Enterprises' distribution of bonuses should be consistent with the internal position responsibility system in order to express and encourage a spirit of progressiveness, rewarding the diligent and punishing the lazy, the more work the greater the return, and to encourage labor in excess of norms for a widening of the pay scale. The range of enterprises' floating promotions must be strictly controlled, the highest not exceeding 40 percent, thereby resolutely overcoming the tendency toward egalitarianism of "everybody getting a share." In enterprises in which the flexible wage percentage is too small, between 20 and 30 percent can be carved out of the standard wage and bundled together with bonuses for distribution on the basis of an assessment of accomplishments. In addition, the transparency of bonus awards is to be improved in order to prevent too wide a gap.

An enterprise reserve fund should be established to provide for contingencies in an evening out of rich and lean periods, gradually shaping thereby a self regulating wage management system.

#### **6. Improving Enterprises' Self-Transformation and Self-Development Reserve Strength**

During the Eighth Five-Year Plan, every effort is to be made to double the Seventh Five-Year Plan investment of credit for development of science and technology throughout the province, the amount averaging between 100 million and 150 million yuan annually (including the relending of amounts recovered). Emphasis is to be on improving zhongshi [0022 6107] links, support given to projects having a high technological component, those from which economic returns will be good, and those from which the repayment of loans is assured in order to speed up the application of new technology to industry.

Enterprises that are making rather serious efforts to develop new products, that show good economic returns, and that can assimilate funds may withhold an additional one percentage point from sales receipts to be used for the development of new products. Enterprises are permitted to withhold a certain percentage from new product development funds and from profits from the sale of new products for use in rewarding personnel who contributed to the development of new products.

Technological transformation loans should be at a differential rate in accordance with industrial policy. The government may provide appropriate discounting of loans or a reduction or exemption from taxes for a certain period of time for technological transformation projects in basic industries that benefit society but from which profits are low. The time limit may be extended and no additional interest or penalty interest charged against technological transformation projects completed during the Seventh Five-Year Plan for which enterprises' loan repayment is overdue because of their weak repayment capabilities.

So long as they guarantee to fulfill their payment obligations to the government, enterprises that fit in with state industrial policy, whose products are at a high technological level, and that face strenuous technological transformation tasks may accelerate by between 10 and 30 percent the prevailing group depreciation of machinery and facilities used on production lines. Some enterprises should be selected for the running of assets reevaluation pilot projects in which withholdings for depreciation are calculated on the basis of replacement value. The 1990 figures for the "two funds" to be withheld during 1990 is the quota to be tendered to the state each year during the Eighth Five-Year Plan, all of the newly obtained depreciation funds to be used for technological transformation.

Large- and medium-sized enterprises that are able to bear the burden may, subject to the approval of financial departments, withhold between 0.5 and 1 percent of annual sales income for a certain period of time to augment their working capital. Between 10 and 15 percent of enterprises' after-tax profits, as well as the increase in value resulting from the uniform adjustment of prices of commodities and materials in inventory, may be used to augment working capital. By augmenting working capital themselves, enterprises can postpone removal of money from the "two funds." Enterprises are to be permitted to issue short-term financed capital debentures to remedy the working capital shortage. Debentures issued within the province are not subject to regional limitations.

#### **7. Development and Perfection of the Contract Management Responsibility System for Active Impetus to Enterprises' Long-Term Contracting**

Enterprise contract management responsibility systems must be related to the protection and increase of state assets, as well as technological transformation. Contracts lacking a signature or that are not clear are to be



supplemented and corrected so as to give impetus to enterprises' technological progress and increase their reserve strength for development.

Contract management enterprises are to exercise decentralized level-by-level control, put the economic responsibility system on a sound footing assigning all norms level-by-level to administrative or technical offices, workshops, factory teams and groups, and individual positions, linking the system to economic returns for a system in which responsibilities, sights, and interests are evenly spread.

Improvement of the enterprise loss bearing system. Contracting enterprises are to set aside between 5 and 10 percent of retained profits annually as a contract risk fund. Depending on the degree of their responsibility, staff members and workers are to pay into this fund a certain sum as a risk security fund. When the enterprise is unable to fulfill its contract duties, money from the risk fund and the risk security fund is to be used to make up for the payment of profits owing. Once the contract has been fulfilled, staff members and workers may be paid interest at the prevailing bank interest rate on savings for the same period.

Once a stable basis exists for a second round of contracting, enterprises and entrepreneurial groups whose technological transformation cycle is long and whose product development will be greatly energized may contract for a period of 10 years or longer, which will help overcome short-term behavior. Enterprises that do long-term contracting must formulate attendant enterprise development goals and set tasks to be accomplished at separate stages. Enterprises that do long-term contracting are to be subject to payment of profits on increases above contracted norms, strictly guaranteeing the base figure with increased retention of above-quota profits, debits and credits being self-cancelling. Enterprises' legal representatives may change, but enterprises' development goals will remain unchanged, and no change will occur in the distribution of returns between the enterprise and the state.

#### **8. Development of Entrepreneurial Blocs for Optimization of Resources Allocation**

Enterprises should be encouraged and spurred to enter into mergers, to do contracting, to take part in the stock share system, to form partnerships, and to found entrepreneurial blocs. Through the use of diverse methods such as juridical persons holding shares and controlling shares, they should develop and strengthen a closely associated stratum in entrepreneurial blocs that jointly shares in benefits and jointly incurs risks to shape a model economy and competitive advantage.

All the preferential policies that bloc member enterprises have enjoyed in the past will continue in force during a prescribed period. Subject to provincial government approval, bloc corporations have the power of appointment and dismissal in closely associated stratum [jinmi ceng 4868 1378 1461] enterprises. Once the provincial and state assets control bureaus so authorize or mandate,

bloc corporations may manage the fixed assets of closely associated stratum member units, and they may qualify as representatives of state assets ownership rights.

Closely associated member enterprises in regions, deal with units concerned as a single bloc corporation in six regards including enterprise contracting, payments to the treasury, repayment of loans, development of plans, wages, and exports. Within the bloc, each enterprise must do its own accounting and be responsible for its own profits and losses; this cannot be changed to overall responsibility for profits and losses, which would create a new "large common pot" out of which everyone eats.

Entrepreneurial blocs may themselves decide on the dispatch abroad of people for surveys, negotiations, and the signing of contracts, reporting directly to the provincial government for approval. Those able to do so may request direct import-export authority.

Enterprises responsible for state command style plans and for integrated production, supply, and marketing may practice plan listing [jihua danlie 6060 0439 0830 0441]. As requirements warrant, bloc corporations may request the establishment of financial corporations to improve their financing functions.

Gradual establishment and development of equity transfer markets to spur the reorganization of enterprise assets holdings. In mergers among enterprises at the same budget level, assets may be transferred without compensation. In mergers among enterprises not at the same budget level, transfers may be with or without compensation. In mergers among enterprises in different systems of ownership, assets are to be transferred for compensation.

#### **9. Genuine Efforts To Clear Up Triangular Debt in Active Redirection of the Credit Structure**

Enterprises are to observe strict credit worthiness, handling matters strictly in accordance with economic contracts and the final settlement system, issuing loans on time and promptly paying loans. Banks may force enterprises to repay loans when they refuse to repay them despite their ability to do so. Enterprises that purposely refuse payment and purposely delay payment of loans must be required to pay larger fines for overdue payment. Loan payments that are in arrears as a result of business disputes must be arbitrated by industry, business, and judicial authorities for the deduction of funds according to law.

Banks must strictly enforce final payment discipline; they may not unauthorizedly refuse payment and return bills, nor may they pigeonhole bills or unreasonably refuse payment. If they do, the unit owing the money is to be required to pay a fine for overdue payment. In addition, a negotiable instrument acceptance and discounting business should be actively operated, priority being given, all else being equal, to the acceptance of bills of exchange for discounting. When specialized banks lack the funds to discount bills, the People's Bank must actively perform rediscounting.

Arrears in investment in capital construction and technological transformation projects is to be clarified with all possible speed, a list of them prepared in order of priority, funds raised through various means including the infusion of credit funds, the issuance of finance capital debentures, and the taking in of funds through stock shares to remedy the investment gap. In future planning of capital construction or technological transformation projects, sufficient investment must be arranged to prevent a shortfall. In no case may construction begin on projects for which no funding has been found.

The clearing up of "triangular debt" has to be done in conjunction with a readjustment of the credit structure, credit funds invested in accordance with the principle of helping the fit and limiting the unfit. Products that are consistent with national industrial policy, that sell well, and that produce good returns should be given priority consideration to assure their supply. Interest rates on credit funds may fluctuate up or down between 5 and 10 percent from the state's standard interest rate. For products whose sales are flat, a policy of basic output on sales and providing loans on the basis of sales must be maintained. The production of products of poor in quality that sell at a high price, that sell very slowly and are in serious oversupply, and for which development prospects are poor should no longer be granted credit. Credit intervention should be used to stimulate a readjustment of the product structure, or even the shutdown, halt, merger, or conversion to other lines of factories.

#### **10. A Resolute Halt to the "Three Indiscriminate Actions" To Lighten Enterprises' Burdens**

No department or unit may infringe the administrative and managerial autonomy that enterprises enjoy under the law. They may not exact manpower, material, or financial resources from them. All indiscriminate collection of fees, indiscriminate levying of fines, and indiscriminate fund raising and exactions must be stamped out. Leading teams in charge of the "three indiscriminate actions" throughout the province are to be fully responsible, and the provincial Economic Commission, the provincial Department of Treasury, and the provincial Materials Bureau are to be responsible for regulating the indiscriminate fund raising and exactions, indiscriminate levying of fines, and indiscriminate collection of fees, as well as for examining and approving reasonable fund raising, fine levying, and fee collection.

Except for matters that the State Council or the provincial government stipulate, no prefecture, municipality, or county may act on its own initiative to raise funds, levy fines, or collect fees. Enterprises may refuse to pay money for fund raising, the levying of fines, and the collection of fees that are not approved by units that the provincial government has not mandated. Enterprises also have the right to bring suit for any coercion or difficulties they encounter for refusing to make payment. No income derived from the approved collection of fees or the levying of fines may be divided up or retained.

Ordinary fiscal supervision and audition is to be intensified for the use of funds that have been raised, and fines and fees that have been collected, and this is to be an important part of annual financial checks. Instances in which funds are spent indiscriminately or are used randomly, that are expended by units or individuals, or used to line their pockets are to be rigorously investigated and punished.

Need for active efforts to set the stage for a change in "enterprises running society." As a result of the intensification of reform, housing, medical treatment, children's attendance at school, and employment have gradually shifted away from being a burden on society.

Resolute correction of the situation of many investigations and many evaluations and comparisons, which has resulted in cutback of useless investigations and evaluations and comparisons, has enabled enterprises to concentrate their energies on production. All investigations and evaluations and comparison other than those that the CPC Central Committee, the State Council, the provincial CPC committee and the provincial government specify are to be stopped in the near future. Anyone who uses an investigation or an evaluation and comparison for the purposes of "consuming, taking, blocking, or demanding" must return in full whatever has been taken. In serious cases and where the effect is bad, they are to be rigorously investigated and punished.

#### **11. Gradual Institution of a New Mechanism in Newly Opened Enterprises and Newly Built Production Lines**

Newly built industrial enterprises are to put into practice a new administration and management mechanism. New production lines that have come into being in old enterprises as a result of technological transformation or the importation of technology, new branch plants that have been set up, and those that begin independent accounting may also put into practice a new administration and management mechanism following approval to do so.

For new plants, and new assembly lines that practice "tax guarantee finance and flexible profit enterprises" [shuibao caizheng lihuo qiye 4451 0202 6299 2398 0448 3172 0120 2814], the income tax is 33 percent, the treasury neither collecting profit nor making up losses. Technologically transformed projects are favored by the tax reduction or exemption policy, and may repay loans after taxes. When an enterprise's debts exceed its assets, it may declare bankruptcy in accordance with the provisions of the "Bankruptcy Law." Withholdings for enterprise depreciation, for the major overhaul fund, for sales activities fees, and for the technological development fund may be greater than the amounts currently specified, those set in joint venture enterprises used as a reference.

Newly founded enterprises may set up a board of directors made up of directors that the investors appoint and directors that the staff members and workers choose. The board of directors hires expert scholars and distinguished personages in society, who may also serve as

board members. Major matters such as enterprise development plans, budgets, profit distribution, and wage plans are decided by the board of directors. The plant manager (or director) is hired by the board of directors, and the board of directors empowers him with the authority and duties of a legal representative. He is fully responsible for the enterprise's production and business.

Government departments exercise indirect regulation and control over new plants and new production lines to enable them to exercise greater autonomy.

Autonomy in management and production plans, in the purchase of materials, in the sale of products, in setting prices (unless the state makes special provisions), and in the structuring of the plant. Government units are not to exercise command-style intervention in the production and business activities of new plans or new production lines.

Autonomy in the use of labor. Staffing and numbers of personnel are strictly in accordance with national level enterprise labor production rate standards. Subject to labor unit approval, plants may themselves recruit staff members and workers, selecting the best through examination for employment, instituting the all-personnel labor contract system. Enterprises may dismiss, discharge, remove from the rolls, or even fire staff members and workers in accordance with the labor contract.

Autonomy in distribution. The wages of staff members and workers in new plants and on new production lines depend on the enterprise's earnings. Wage standards, kinds of wages, and the distribution of bonuses and subsidies are decided by the enterprise.

Enterprises do not run "society." Enterprises bear economic responsibility only for the organization of production and administration; they do not bear the social responsibility of solving staff members' and workers' problems of obtaining child care, getting their children into school, or finding employment for their children. The housing and medical treatment of staff members and workers, as well as their retirement insurance, are to be taken care off in accordance with the new methods following reform.

This regulation becomes effective on the date of publication. Should previously promulgated regulations conflict with this regulation, this regulation is to be taken as the standard. All units are to draw up as quickly as possible detailed provisions for the implementation of this regulation.

### **Jilin Chemical Company Increases Earnings**

*OW2110132291 Beijing XINHUA in English  
1229 GMT 21 Oct 91*

[Text] Changchun, October 21 (XINHUA)—The Jilin Chemical Industrial Company, the largest of its kind in China, earned 25.25 million U.S. dollars in foreign exchange in the first nine months of this year, up 73.7 percent compared with the same period last year.

The company, located in Changchun, capital of north-east China's Jilin Province, was established soon after the founding of New China in 1949. At the end of 1985, the company was granted by the state the power of foreign trade and set up the Jilin Chemical Import and Export Corporation.

In the past five years, the corporation has exported more than 54 kinds of products to Europe, the United States, Japan, Southeast Asia and other countries and regions. It has earned a total of 100 million U.S. dollars in foreign exchange over the period, according to Tao Qi, manager of the Jilin Chemical Industrial Company.

Meanwhile, the corporation introduced 150 advanced technologies and equipment from abroad to promote development of the export-oriented economy.

As a result, the corporation's customers increased from the original 20 in 1985 to 120 this year.

To expand its international market, the corporation set up branches in Shenzhen, Hainan, Dalian and Beijing and agencies in Japan and Thailand.

Tao noted that during the Eighth Five-Year Plan period (1991-95), two 300,000-ton chemical industrial projects will be built and put into operation.

## **FINANCE, BANKING**

### **Commentary on Preventing Debt Chains**

*92CE0003A Beijing JINRONG SHIBAO in Chinese  
22 Aug 91 p 1*

[Commentary: "Why Emphasis Should Be Placed on the 'Four Preventions'—an Answer to the Fourth Question of General Concern on Clearing Up the 'Debt Chains'"]

[Text] In the current task to clear up the "debt chains," an important role is played by the "four preventions," which may spell the difference between success and failure. They not only insure that new debt chains are not created while old ones are cleared up, thus consolidating the results achieved, but also serve as the basis for readjusting the economic structure, strengthening management, invigorating the economy, and improving economic performance. Therefore, it is imperative to make the "four preventions" a success.

The so-called "four preventions" refer to the prevention of new investment projects without sufficient funds, new losses, new overstocking of finished goods, and new defaults in debt payments. As we all know, because the "debt chains" are caused by many factors over a long period of time and reflect many deep-seated problems in economic operation, it is impossible to eliminate the three major causes of the "debt chains" all at once. Clearing up the "debt chains" is a complicated and arduous task, which cannot be accomplished in a single move, but has to be carried out step by step. Nonetheless, we must get to the root of the problem and strive for a

permanent solution. While resolving the old debt problems step by step, effective measures must be adopted to prevent new ones from occurring.

First of all, we must prevent new investment projects without sufficient funds. For a long time, the scale of investment beyond the nation's financial capability, the irrational investment structure, the skewed industrial structure, and the pursuit of output value and speed which have no real economic value have created a vicious cycle of more production, more overstocking, and more losses. This problem is caused by both unscientific factors in macroeconomic policy decisions and pressures from some local governments and enterprises for investment and blind expansion. With easy money and growing demand, the contradiction in the simultaneous existence of overstocking and shortage was concealed temporarily. But, with the adoption of the policy to tighten control over finance and credits, the excessive demands have been curtailed, and because the readjustment of the industrial structure and product mix has lagged far behind, inventories have increased quickly, tying up large amounts of capital, and a sharp rise in the number of defaults in debt payments is inevitable. To solve the debt problem, the State Council is determined to eliminate the root causes, first of all to clear up the delinquencies in repayment of loans for capital-construction and technological-transformation projects, and resolve the debt chains step by step, which are no doubt the proper things to do. However, we must also see clearly that from now on, if we fail to pay attention to rationalizing the overall investment structure, making sure that investments are made according to market demands and that the investment scale is determined according to the country's capability, then even if the old "debt chains" can be resolved, new debts will be raised for investments, and new "debt chains" will be formed.

Losses by enterprises and overstocking of goods are the two other major causes for the "debt chains," and the amounts involved are very large. Even though the current effort may significantly reduce the existing debt problems, if we fail to adopt effective measures to prevent new losses and overstocking by the enterprises, it is inevitable that new debts will be raised, while old ones are settled. Therefore, to consolidate the achievements in clearing up the old debt chains and prevent new ones from being formed, we must concentrate our efforts on the "four preventions."

How can the "four preventions" be accomplished effectively? From a macroeconomic viewpoint, it is necessary for the planning commissions, finance departments, banks, other relevant departments, and governments at all levels to act in close coordination and cooperation. From a microeconomic viewpoint, it is necessary for the enterprises to really promote the ideas of efficiency, market, input-output, and credit, and the whole nation must work together to achieve the "four preventions." At the same time, in making macroeconomic policy decisions, attention should be paid to the following: 1. In arranging future investments in fixed assets, we must

follow the principle of acting according to our capability and not rely on borrowing. The source of funds for new construction projects must be subject to strict examination. Construction should not be permitted to start, if the enterprise or local government fails to raise its own funds as planned and is unable to make payments for what it has purchased. (2) Serious efforts should be made to readjust the product mix, reduce overstocking, and promote sales. It is imperative to allow enterprises to adapt themselves to the market and organize production according to demands. Existing inventories should be reduced either by promoting sales or by limiting or stopping production. (3) The departments concerned should adopt realistic measures to create a good external environment for enterprises and help them reduce losses and increase profits. The enterprises should also stop blindly pursuing higher output value, strive to increase the varieties of goods, improve product quality, concentrate on improving economic performance, and avoid sustaining new losses.

#### **Forum on False National Income Increase, Distribution**

*92CE0003C Beijing ZHONGGUO SHUIWU BAO  
in Chinese 19 Aug 91 p 1*

[Article by Zhong Heng (6945 1854): "False Increase and Distribution of National Income and How To Deal With It"]

[Text] Recently Shanghai municipal financial departments made an investigation and analysis of the distribution of national income produced by 14 locally administered state industry bureaus in Shanghai from 1985 through 1990, from which some confusions in national income production and distribution have been discovered.

The trend is obvious that increasing proportions of national income are being distributed to the collectives and individuals. The proportion for the state is decreasing; that for the enterprises is increasing slightly; and that for the workers and staff members is increasing sharply. Comparing 1990 with 1985, of the distributable national income produced by the 14 state industry bureaus, the amount distributed to the state dropped by 2.64 billion yuan, or 23 percent; that to the enterprises increased by 380 million yuan, or 23.9 percent; and that to the individuals rose from 3.28 billion yuan to 5.07 billion yuan, up by 57 percent. Of the gross national income, the proportion that went to the state dropped from 67.6 percent to 41.9 percent; that to the enterprises rose from 9.3 percent to 9.4 percent; and that to the individuals rose from 19 percent to 24 percent. The irrational phenomenon in national income distribution has aroused concern and attention.

Our investigation has also discovered some other serious problems in national income production and distribution, which call for even greater attention.

One is the phenomenon of false increases in national income, that is, the rapidly increasing numbers in unrealized national income. In 1985 and 1986, Shanghai's 14 state industry bureaus had no unrealized national income. However, unrealized national income appeared in each of the 4 years beginning from 1987, and the amount increased year after year from 720 million yuan to 2.14 billion yuan. The reason, besides the stockpiling of unsold goods each year, resulting in unrealized profits and taxes, is that owing to the sluggish market in recent years a considerable part of the goods were sold at reduced prices. The selling of goods at reduced prices does not cause any reduction in national income materially, but it does cause a sizable loss to national income in value. This situation reflects certain problems in the industrial structure, product mix, and product quality in China's material production departments.

Another problem is the false distribution of national income, that is, the rapidly increasing proportion of national income used by enterprises as expenses. Generally speaking, the distribution of national income should ultimately result in the sharing of all the national income among the state, enterprises, and individuals. However, a part of the national income is set aside as other expenses included in the costs of factories. In the initial distribution, this part of the national income neither increases the income of the state or enterprises nor adds to the earnings of individuals, but is spent mainly on various kinds of economic and noneconomic activities related to circulation, sometimes even related to corrupt practices. In 1990, this part of the national income of Shanghai's 14 state industry bureaus amounted to 3.08 billion yuan, or 14.58 percent of the year's total national income, a net increase of 230 percent over that in 1985, far exceeding the combined increase in the income of enterprises and individuals over the same period. The problem of false distribution of national income is quite widespread in the country as a whole, and seems to be increasing year after year. It reflects another aspect of the confusion in national income distribution.

Because of the false increase and distribution of national income, the distributable absolute amount of national income cannot increase much and may even decrease. Between 1985 and 1990, the absolute amount of national income of Shanghai's 14 state industry bureaus apparently rose by 4.11 billion yuan, an increase of 24.2 percent over the period and an average increase of 4.4 percent each year. However, the amount of unrealized distribution, or false increase, rose by 2.37 billion yuan, and the amount spent as expenses, or false distribution, increased by 2.16 billion yuan over the same period. Thus, the amount of national income available for distribution to the state, enterprises, and individuals came to 16.3 billion yuan in 1985 and only 15.9 billion yuan in 1990, a drop by 400 million yuan. The distributable national income dropped from 95.8 percent to 75.7 percent of the total. In other words, in 1990, false increase and distribution amounted to 24.3 percent of the total national income.

In view of the abnormal present state of national income production and distribution, we think it is necessary to adopt a number of macro and micro measures including financial policies to treat and cure both the minor and major ills. The major goal of the treatment and cure is to solve the problem of false increase and distribution of national income, that is, to make a determined effort to minimize the amount of unrealized national income and reduce the portion of national income used for expenses. To solve the problem of false increase, it is necessary objectively to strive to accelerate the readjustment of the industrial structure and product mix, upgrade product quality, and further improve the market, so as to let the market reflect the balance between supply and demand and play a more important role as the medium and to create good market conditions for the full realization of national income. At the same time, it is also necessary to implement specific enterprise operating and marketing measures in order to promote normal marketing. To solve the problem of false distribution, efforts should be made to combine social propaganda and education with specific financial rules and measures for rewards and punishments. It is necessary to set a standard rate of marketing expenses for each 100 yuan of sales respectively for each different trade and strictly examine the performance of the enterprises. Expenses that can be reduced must be reduced. Expenses exceeding the standard should be cause for severe punishment. In short, we must try in every possible way to reduce the expenses of the enterprises, make it clear where the national income should ultimately go, and make sure that actual distribution is more concentrated on the state, the collectives, and the individuals.

### Securities Trade Association Established

92CE0003B Beijing JINRONG SHIBAO in Chinese  
29 Aug 91 p 1

[Article by staff reporters Liu Wenlin (0491 2429 2651) and Mou Ling (3664 7881): "China Securities Trade Association Formally Established Yesterday"]

[Text] Beijing, 28 Aug—The China Securities Trade Association is formally established in Beijing. This is the first national trade self-discipline and control organization in the history of the development of the securities trade in China. Its establishment marks the entrance of China's securities trade into a new period of development and will have an important and far-reaching impact on China's financial reform. The event also indicates that China will continue to pursue the policy of reform and opening to the outside world firmly and unswervingly.

State leaders present at today's inauguration ceremony included Chen Muhua, vice chairman of the NPC Standing Committee; Li Guixian [2621 6311 7639], state councilor and concurrently president of the People's Bank of China; Liu Hongru [0491 7703 0320], vice minister of the State Restructuring of the Economic System Commission; Wang Chunzheng [3769 2504 2973], vice minister of the State Planning Commission;

Liu Jibin [0491 4480 2430], vice minister of the Ministry of Finance; Tong Zengyin [4547 6362 6892], Chen Yuan [7115 0337], and Bai Wenqing [4101 2429 1987], vice presidents of the People's Bank of China; Yin Jieyan [3009 0094 3508], director of the State Administration of Exchange Control; and others. Well-known personages of the securities circles from the United States, Britain, Japan, South Korea, Taiwan, Hong Kong, and other countries and areas have also made a special trip to attend the inaugural meeting of the China Securities Trade Association.

The meeting was presided over by Jin Jiandong [6855 1696 2767], chairman of the board of the China Securities Trade Association. Li Guixian, state councilor and concurrently president of the People's Bank of China, made a speech at the meeting (text transmitted separately). Guo Zhenqian [6753 2182 0051], vice president of the People's Bank of China and president of the China Securities Trade Association, spoke on behalf of the association.

Guo Zhenqian talked about the development of China's securities trade to those present. He said: As a direct product of reform and opening to the outside world, China's securities trade is closely related to the national economic reform and development as a whole. In the 10 years and more of reform and opening to the outside world, a total of more than 200 billion yuan worth of securities have been issued in China, and the estimated total volume of trade in securities by the end of this year will be in excess of 50 billion yuan. The types of securities have also increased from a single type of national bond to many different types of national bonds, enterprise bonds, financial bonds, stocks, and so forth. During the last few years especially, the security market has developed quite rapidly. With the development of the security market, security-trading institutions have also grown in number. So far 59 security companies have been approved by the People's Bank of China. In addition, there are more than 300 security trading departments and many agents. Stock exchanges have been established in Shanghai and Shenzhen. A nationwide financial market price-quoting, trading, and information center will be opened soon. A multilevel security market system, which combines centralized and decentralized management, is beginning to take shape in China. Facts have shown that the opening up and development of the security market in China have played a positive role in balancing the financial budget, expanding the fund-raising channels for enterprises, guiding the flow of consumption funds, supporting the readjustment of the industrial structure, encouraging experiments on reforming the stock system, and accelerating the continued, steady, and coordinated development of the national economy.

Guo Zhenqian stressed that it has been pointed out clearly by the "Outline of the 10-Year Economic and Social Development Program and the Eighth Five-Year Plan" that it is necessary to expand the issuance of various kinds of bonds and stocks step by step in a

planned way, strictly strengthen their control, and gradually diversify society's financial assets; that it is necessary to steadily develop the money market, expand the channels for inter-bank lending and borrowing, and improve the security-circulating market; and that it is necessary to conduct experiments on the establishment of stock exchanges in an appropriate manner in big cities where conditions are ripe and develop step by step a standardized exchange system. Accordingly the People's Bank of China has formulated and begun to implement a program for developing the money market during the Eighth Five-year plan.

Guo Zhenqian pointed out that the China Securities Trade Association is a national trade association with a wide range of connections, a lot of work to do, and great responsibilities. To fulfill its historical tasks, the China Securities Trade Association will work actively in six areas: (1) It is necessary to actively engage in theoretical research and, around the central task of "developing a socialist security market with Chinese characteristics," strive to find the way, direction, and strategy for the development of China's securities trade, combining international practices with China's conditions. In developing the securities trade, we should not be complacent and reject all things foreign, nor should we copy the practices of the West totally and uncritically. We must insist on combining international practices with China's conditions, which is a basic principle. (2) In coordination with the organizations in charge of securities, efforts should be made to help the state and government in strengthening the legal, administrative, and policy control of the security market and in establishing and perfecting a self-discipline and management system for the securities trade. (3) It is necessary to actively organize the specialized training for those working in the securities field and establish a qualification examination system to improve the overall quality and managerial and administrative standard of the securities trade. (4) It is necessary to foster the idea of serving members of the association, the securities trade, and other social circles wholeheartedly and do more solid work for them. (5) It is necessary to actively promote contacts and interchanges with the securities circles abroad. (6) It is necessary to build up the ranks of securities workers, paying attention to both their material and spiritual standards and combining ideological education with professional guidance.

### **Treasury Bonds Selling Briskly**

91CE0772A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 28, 15 Jul 91 pp 13-14

[Article by Li Shiyi (2621 0013 5030): "A New Interest in National Treasury Bonds"]

[Text] The amount of national treasury bonds that China has been issuing for 11 years in a row had reached 102.5 billion yuan by 1990. Almost every urban and rural family with a regular income has a pile of elegantly printed treasury bonds, whose widespread dissemination may be rated first in the world.

While our fellow countrymen have been signing up to buy treasury bonds year after year, they have only become truly interested in them in the last two years. This is because their selling prices have been increasing steadily in the last two years, their changes have been fast and large, and there is a general sense of "one day without them feeling like three years." For instance, while signing up to buy treasury bonds used to be a "political duty," it is now also "profit-motivated" and, while treasury bonds used to be fixed savings that could only be packed away in the bottom of boxes, they can now be transferred, cashed in, and bought and sold for profit, which makes them both "treasure banks" and "sources of ready cash." Treasury bonds in Mainland China are now undergoing the following major changes:

#### **Markets Are Stimulating Treasury Bond Trading**

China's largest negotiable securities trading center—The Shanghai Stock Exchange, officially opened for business in December 1990. Since then, its trading volume has increased month after month, with its business turnover having skyrocketed from 6 million yuan a day in December 1990 to 50 million yuan a day by April 1991, for an increase of 700 percent. Its trading methods have also changed from elementary over-the-counter trading to a higher level of centralized-exchange competitive-price trading.

The state began to allow 1990 national treasury bonds to be marketed and transferred on 1 January 1991. As soon as they went on the market, they caused a lot of excitement, because they were expected to rise in price with tremendous force. Their prices remained strong in January and February, fluctuated somewhat in March, and rose again in response to the lowering of bank interest rates in April, with the market price per 100 yuan face value of national treasury bonds rising to a high of 119 yuan, topping their face value annual interest rate of 14 percent by five points, and steadily increasing their buyers' profits. This shows that the market is highly sensitive and treasury bonds are selling briskly.

Over 300 cities in China have now opened negotiable securities circulation markets. In 1990, the value of all types of negotiable securities transfers throughout China reached 13.5 billion yuan, with their trading volume amounting to about one-fifth of those issued in 1990. The various kinds of state-issued treasury bonds make up over 80 percent of all negotiable securities throughout China, and play the major role in stock markets.

The STAQ [Securities Trading Automated Quotations System] price quotation center, which was organized by 53 negotiable securities companies at the end of 1990, has issued a timely circular on its conditions, which shows a business turnover of 64.82 million yuan for the first quarter of 1991, steadily rising national treasury bond prices, steadily increasing demand, and a great deal of interest among collective and individual investors.

#### **The Profit Motive Is Arousing a New Interest in Treasury Bonds**

China's 1991 national budget provides that the state will issue 19 billion yuan worth of the following three kinds of treasury bonds in 1991: 10 billion yuan worth of national treasury bonds to individuals and self-employed industrial and commercial households; 7 billion yuan worth of finance bonds to financial institutions, such as banks; 2 billion yuan worth of special treasury bonds to enterprises, institutions, organizations, groups, the armed forces, and certain foundations, such as the agencies that manage retirement and old-age insurance and unemployment insurance funds for staff members and workers of state-owned enterprises. These bond sales began in April, or two months earlier than in 1990.

The job of repaying capital with interest on treasury bonds began on schedule on 1 July 1991. The state will pay out 15 billion yuan in cash on mature treasury bonds in 1991.

The great demand for treasury bonds began in 1990. The three-year national treasury bonds that were issued in 1990 had a high annual interest rate of 14 percent. When the National Treasury Bond Regulations were issued, their interest rate was already 2.12 percent higher than the April 1990 interest rate on three-year bank savings, so that 1,000 yuan worth of national treasury bonds would earn 420 yuan in interest when mature, or 63.6 yuan more than the 356.4 yuan in interest that would be earned from 1,000 yuan of bank savings. As banks again lowered interest rates in August 1990, in addition to the 1990 rate of inflation of only 2 percent, these high-interest national treasury bonds aroused even more attention among the common people, becoming hot-selling items for a time. People lined up to buy them in many places, and over 9 billion yuan worth of 1990 treasury bonds were sold out in just a few months. Whereupon another rush of secondhand transfers began, so that it could be said that each wave of selling was brisker than the last.

The national treasury bonds issued in 1991 have continued to have a higher interest rate, with that on three-year ones being 10 percent, or 1.72 percent higher than that on the same term bank savings, so that 51.6 yuan more per 1,000 yuan can be earned from mature treasury bonds than from bank savings. The state exempts the interest earned on individual purchases of national treasury bonds from personal income regulatory taxes, which is a more preferential policy than that for other negotiable securities. The residents of Beijing rushed to buy the treasury bonds that were issued in mid-May 1991. While many of them were fully aware that the interest on the national treasury bonds issued in 1991 would begin on 1 July, before which there would be no interest, they were also aware of the motto that the race is to the swiftest, so were afraid that they would be unable to buy them if they waited. During the one-month period from 20 May to 20 June 1991, negotiable securities agencies in Beijing's finance departments alone sold



27 million yuan worth of national treasury bonds over-the-counter, which was a rare occurrence indeed.

A prevalent view among the waves of people who are rushing to buy treasury bonds is that high interest is certainly not their greatest attraction. This is because while the treasury bonds that have been issued over the past years have generally had higher interest rates than those on similar term bank savings, this has certainly not had much of a psychological impact. It has been only since 1988, when the state announced that it would open up treasury bond circulation markets, as many as 1,000 negotiable securities companies and their network points throughout China opened for business, and all types of treasury bonds were put on the market, that ordinary people have discovered that their steadily increasing stacks of treasury bonds have achieved a new mobility, instead of being "fixed savings" any more. When they need money urgently, people can now transfer their bonds at local negotiable securities agencies, and achieve higher interest gains than on the same amount of similar term bank savings. This is because they incur greater losses through drawing interest on bank time deposits before they mature, than from transferring interest on nonmature treasury bonds on bond markets.

Once people discovered the secret of these higher profits, treasury bonds became a means of financial investment, even though they still functioned as savings. Since the summer of 1991, the savings deposits of urban and rural residents throughout China have reached 700-800 billion yuan, with people having about 200 billion yuan in cash on hand, and 15 billion yuan in national treasury bonds that will mature and repay capital with interest in 1991. As such a huge stockpile of public funds will undoubtedly provide rich socioeconomic resources for treasury bond circulation markets, our future treasury bond market development trend will be brisk business and dynamic trading.

#### **A Trend of Commercialization of Treasury Bonds Has Appeared.**

Local financial experts have analyzed the following distinguishing features of China's 1991 treasury bond circulation market:

- Treasury bonds are no longer issued to residents through purely administrative means, but have become a voluntary means of savings, profitmaking, and investment. While previous purchases were generally in amounts of dozens or hundreds of yuan, current ones are in amounts of up to 1,000 or 10,000 yuan, and even those in amounts of tens of thousands of yuan are a common occurrence.
- While ordinary people used to sell more and buy less on circulation markets, it is just the opposite now, and the number of bonds being bought secondhand from negotiable securities companies is increasing steadily. The business makeup of negotiable securities companies has changed from large sales to purchases. In 1988, when the treasury bond circulation market had just been opened up and a wave of inflation was just

sweeping across China, 70-80 percent of treasury bond transactions were large sales. But as banks lowered savings interest rates, prices stabilized, and a rough balance of treasury bond purchases and sales was achieved in the last half of 1990, the number of negotiable securities companies and individuals seeking to buy secondhand bonds has been increasing steadily since the end of 1990. In March 1991, treasury bond middlemen in Wuhan's finance departments bought 58.27 million yuan and sold 64.91 million yuan worth of treasury bonds, which shows that they had more buyers than sellers.

- Market prices are becoming increasingly more rational, which can be seen by the steady decline in the profit margins of secondhand bond purchasers, and their gradual approach to the interest rates of similar term bank savings. For instance, as to middleman transactions of 1986 treasury bonds by finance departments in 1990, the middleman prices rose from 120 yuan in April to about 140 yuan by December 1990, for an average increase of about 2.7 yuan a month. As the treasury bonds put on the market have risen steadily in value, the profit margins of secondhand bonds bought in the first quarter of 1991 have dropped from their high of 14.75 percent to 8.39 percent, which is slightly lower than the two-year bank interest rate for August 1990.

- Regional price differences are shrinking. While treasury bonds cost about 8 percent less in Beijing than in Shanghai in January 1991, Beijing's prices have caught up in recent months, so that prices are roughly the same in both cities. While a lack of sensitive information and rigid administrative price-setting have put the transfer prices of treasury bonds lower in certain parts of northwest and north China and Guizhou and Hainan provinces than in Shanghai, such prices in all other large- and medium-sized cities are closely in step with those in Shanghai, which has shrunk price differences, and even left prices higher in some places than in Shanghai. Shanghai is playing a decisive role in negotiable securities transactions throughout China.

These distinguishing features of China's 1991 treasury bond circulation market show that treasury bonds have already appeared in the economic arena as financial commodities. This should be seen as a good sign of new achievements in economic as well as finance and banking reform.

#### **China's "Gilt-Edged Bonds"**

Issuing national treasury bonds is one of the key means of conducting financial transactions that is used by the governments of many countries in today's world. When China resumed issuing national treasury bonds in 1981, it started by assigning subscription quotas through administrative means, which were seen as "mandatory duties" by cadres, staff members and workers, and ordinary people. Since many objective factors, such as issuing agencies, circulation agencies, trading markets,



and personnel training, were incomplete, our fellow countrymen were understanding and supportive, and accepted administrative subscription quota assignment as a feasible method at that time.

But it was impossible, after all, to go on issuing treasury bonds through administrative means permanently. This was because it was not enough to emphasize that our fellow countrymen should support our national construction alone, but it was also necessary to acknowledge the vital interests of bond purchasers, by giving them a certain amount of room for choice. When the state first opened up treasury bond circulation markets in 1988, this was welcomed widely to very good effect, because a mechanism had been found with which to combine state and individual interests through treasury bond commercialization and circulation markets.

Since 1989, the State Council has decided to allow banks, public finance departments, and post offices to act as diversified means of issuing and repaying capital with interest on value-ensured government and national treasury bonds, which has replaced the traditional method of a single means of issuing treasury bonds. This has aroused the initiative of all sectors to promote the sale of treasury bonds, by remedying the defect of the slow growth of middlemen, such as domestic negotiable securities companies.

The state has announced in 1991 that it will conduct experiments in some qualified places in contract buying and selling of national treasury bonds, by organizing national treasury bond contract purchase and sale groups, giving them the exclusive selling rights for some national treasury bonds, and enabling them to sell bonds through their business networks to urban and rural residents through China. In doing this, China is once again making use of the circulation methods of developed countries, in order to alleviate the difficulties of direct sales by public finance departments, contribute to the regulation and control of the supply and demand relations of our primary national bond market, and provide financial investment options to investors. Local experts note that this step is providing new conditions for and injecting new vigor into advances in the direction of making our national treasury bonds more market-oriented and commercialized.

The series of reform steps that have been taken to invigorate our treasury bonds will continue in the future. It can be predicted that we will certainly take other spectacular actions focused on major problems, such as our treasury bond issuing system, primary market development, circulation market improvement, and good debt cycle forces. All of these also encompass our goal of developing China's own "gilt-edged bonds" (an appraisal of and good reputation given by Western economists to national treasury bonds that enjoy high prestige, are low-risk, are profitable, enjoy special preferences, and are superior to other bonds). This is precisely the common ideal that is being pursued by the Chinese Government, financial world, and people.

### Liaoning Clears Triangular Debts

92CE0014A Shenyang LIAONING RIBAO in Chinese  
31 Aug 91 p 1

[Text] By 30 September, Liaoning Province had cleared 4.5 billion yuan of overdue payments for capital construction and technical transformation projects, added to the 3.86 billion yuan of overdue circulating fund payments it had already cleared, the total was 8.36 billion yuan. Approximately one-third of the entire province's total debt chain was thereby undone, achieving the major stage of one yuan of funds clearing three yuan of debts. On the 29th, responsible people in the State Council's leading small group on clearing "triangular debts" heard reports on relevant circumstances, and urged Liaoning and the northeast region to earnestly summarize their experiences, work ceaselessly and unrelentingly, and continue to broaden their achievements in "clearing debt chains."

Liaoning's debt clearing work was carried out under the direct attention of Premier Li Peng and the specific guidance of the State Council's leading small group on debt clearing. They took as their starting point the bridging of gaps in fixed asset investments. On the basis of ascertaining which projects were in arrears and the amounts, and earnestly carrying out the raising of money and actually repaying debts, after 15 August they successively poured in 1.1 billion yuan of bank loans and more than 400 million yuan of locally raised funds, and "cleared the debt chain." After receiving funds, every enterprise that was owed debts or had incurred debts had to take the initiative to repay the full amount to the next link to clear the debt, so that funds would not be held up or lost, and the debt chain was undone link by link. After the Shenyang Heat and Power Plant received on 16 August a 366,000 yuan loan from the city's construction bank and a debt repayment of 1 million yuan from an enterprise in Heilongjiang Province, it used all of the money on 18 August to repay a loan to the Shenyang Water Pump Factory. The Shenyang Water Pump Factory in turn used the money to repay a loan to the city's electrical machinery plant. Once the electrical machinery plant's capital fund became more flexible, it repaid on the same day loans to the Shenyang Electrical Cable Factory. The next day, the electrical cable factory repaid loans to the Shenyang Plastics Factory, and soon afterwards the plastics factory used the funds to repay debts to the Jinxi Chemical Plant, the Jilin Chemical Industrial Company, and the Harbin Chemical Plant. Up to this point, the infusion of this 1.36 million yuan in funds has cleared more than 8 million yuan of "triangular debts" owed by eight enterprises.

Authorities concerned pointed out that within less than 15 days, the funds repaid in Liaoning had typically been turned around three times (some had been turned around seven or eight times), and achieved one yuan of funds clearing three yuan of debts. At present, the process of clearing the debt chain has not been completed, and it is estimated that it could ultimately achieve a debt clearing ratio of one to four or one to five.

The results of this debt clearing illustrates that to take as the starting point the bridging of gaps in fixed asset investments is to "grab the ox by the halter" and block the source has decreased spending and increased work, and has helped to prevent new debts.

The ability of Liaoning's experimental debt clearing work to succeed cannot be separated from the attention given by principal leaders on the provincial level and in city government in Dalian, Shenyang, and other places. On many occasions they held meetings, mobilized people, transferred capable personnel from the planning and production committees, banks, and other departments to form a debt-clearing contingent; earnestly cultivated and coordinated forces in all areas; and carried out unified administration. In order to bring out the results and experiences of the experiment prior to the national working conference on clearing "triangular debts," responsible cadres of Liaoning Province, Shenyang, Liaoyang, Benxi, and other cities stayed in command and supervised operations around the clock, and through this mode of working on the scene, carried out the link-by-link organizing to ensure that funds were put in place on time and were turned around on time. To effectively prevent the expansion of new investment, Liaoning and each city government had to use every means to reduce unnecessary projects, and tap the potential of internal funds to clear debts and to increase the proportion of locally-raised funds for debt repayment to more than 30 percent. Dalian City went through many channels to raise funds, so that the proportion of locally-raised funds for debt repayment was as high as 53 percent. When the vast numbers of enterprises saw that the State Council was "taking a real approach" to debt clearing, they gradually reversed their view of repayment of funds as a bad deal, and one by one acknowledged and repaid their debts.

At present, Jilin Province and Heilongjiang Province have also entered a substantive phase of clearing and repaying debts. Heilongjiang Province and Harbin City have cleared debts of 2.35 billion yuan, and Jilin and Changchun City have cleared 1.3 billion yuan.

Responsible people in the State Council's leading small group on clearing "triangular debts" pointed out that in Liaoning debt clearing has achieved outstanding success, and we must use this to strengthen the entire nation's confidence in clearing "triangular debts." The primary experience of the northeast region's experiment is: unify thought, elevate understanding, have leaders pay attention, implement organization, unify public will, and take quick action. Clearing "triangular debts" is a systematic undertaking, and each link—governments, banks, and enterprises—must serve the greater good and develop the appropriate style in order not to pose any obstruction. This northeast experiment will be a valuable contribution to the national conference on debt clearing that will be convened on the 31st.

### Private Financial Assets Increase Sharply

HK2910025691 Hong Kong CHING-CHI TAO-PAO  
in Chinese No 42, 21 Oct 91 pp 14-15

["China Economic News" article: "Private Financial Assets in Mainland Top 1,000 Billion Yuan"]

[Text] Recent statistics released by an authoritative department show that private financial assets (renminbi holdings only) in mainland China totaled 1,000 billion yuan at the end of 1990. An increasing number of people are not satisfied with mere savings and have invested their funds in treasury bonds, inflation-proof bonds, and shares.

According to statistics, the mainland's private savings deposits reached 703.4 billion yuan (renminbi, same hereinafter) by the end of last year, an increase of 310 percent over 1985. This figure accounts for around 70 percent of mainland's private financial assets.

Investment in bonds has increasingly become an essential means for mainland inhabitants to increase their wealth. By the end of 1990, the value of financial bonds possessed by mainland individuals increased by 8.45 billion yuan over 1985. The face value of shares purchased by individuals amounted to only 1 billion yuan in 1987. Last year the figure rose to 4.59 billion yuan, an increase of 360 percent in three years.

Cash in the hands of inhabitants was around 208.9 billion yuan at the end of last year. This figure accounts for over 20 percent of private financial assets in the mainland.

## INDUSTRY

### Government Constructs New Ethylene Plant

OW1810171791 Beijing XINHUA in English  
1530 GMT 18 Oct 91

[Text] Nanjing, October 18 (XINHUA)—China's Yangtze Ethylene Plant passed a final inspection and received government approval today.

The plant, which has a production capacity of 300,000 tons, is located in the suburbs of Nanjing City, on the north banks of the Yangtze River. Construction of the plant began in 1982 and required a total investment of over seven billion yuan (1.4 billion U.S. dollars).

Since it went into trial production, the plant has earned over 2.5 billion yuan in profits and taxes, and over 700 million U.S. dollars in foreign exchange.

The plant has become a raw materials production base for the country's textile, chemical and construction materials industries.

**Construction of Steel Production Bases Steps Up***HK0510015491 Hong Kong CHING-CHI TAO-PAO  
in Chinese No 38-39 1 Oct 91 p 24*

["China Economic News" article: "China Steps Up Construction of Steel Bases With 10 Million-Ton Capacity"]

[Text] China is stepping up construction of three iron and steel production bases, each with a 10 million-tonne capacity. The three bases likely to be built up by the turn of the century are:

The Anshan base—expected to turn out 10 million tonnes of steel a year by the mid 1990's;

The Baoshan base—Phase One reached the target for an annual output of 3 million tonnes of steel two years ago; Phase Two is scheduled to be completed by the end of this year; and Phase Three is scheduled to turn in an annual capacity of 10 million tonnes of steel by the turn of the century;

Shoudu Iron and Steel Corporation—intending to jointly raise funds with Shandong Province to run stage by stage the Qilu Iron and Steel Company project, which is expected to turn in a capacity of 10 million tons of steel by the turn of the century.

**LABOR****Income of Urban, Rural Residents Increases***HK2810050091 Beijing ZHONGGUO XINWEN SHE  
in Chinese 1243 GMT 21 Oct 91*

[Text] Beijing, 21 Oct (ZHONGGUO XINWEN SHE)—A statistical figure revealed here today shows that the income of the average urban and rural resident in China has increased this year.

A spokesman for the State Statistical Bureau said at a news conference that in the first three quarters of this year, the total wages paid to workers reached 224.2 billion yuan, an increase of 13.6 percent over the same period last year; with the price factor deducted, the average wage increased by about 6 percent. If nonwage incomes are included, the average monthly income of urban residents increased by 8 percent in real terms.

The spokesman also said that in the first three quarters of this year, the per capita cash income of peasants reached 490 yuan, an increase of 9.7 percent over the same period last year. With the price factor deducted, the actual income increase should be 7 percent.

**Handicapped Workers Employed by Welfare Businesses***OW2910182491 Beijing XINHUA in English  
1308 GMT 29 Oct 91*

[Text] Beijing, October 29 (XINHUA)—The past decade has witnessed a remarkable growth in China's welfare

businesses, with more than 650,000 handicapped workers being employed in various social welfare enterprises.

Today's PEOPLE'S DAILY quoted sources close to the ongoing national conference on social welfare, in Hangzhou, capital of Zhejiang Province, saying that there were only 48,000 disabled people working in 1,022 factories ten years ago.

Now the country has a total of 41,000 welfare factories of various kinds, an average of 506 factories for every 100 townships.

At present, over 90 percent of the disabled with working ability are employed in the country's major cities, and 70 percent are employed in other urban areas above county level.

Most of the welfare enterprises were small and ill-equipped in the past. So the government granted tax reductions and other preferential treatment to them to help them improve management and upgrade technology.

Their efforts paid off. By the end of last year the total output value of these factories reached 30.1 billion yuan (about 5.6 billion U.S. dollars), compared with 700 million yuan some 10 years ago, the sources said.

Welfare firms export about 1,500 tons of products every year, bringing in 500 million U.S. dollars.

Statistics reveal that the country's welfare enterprises contribute some 150 million yuan a year to help local governments set up old people's homes and other welfare projects.

**PUBLICATIONS****Dictionary of Minority Arts Published***OW2310113491 Beijing XINHUA in English  
1054 GMT 23 Oct 91*

[Text] Beijing, October 23 (XINHUA)—A dictionary on the arts of Chinese minority nationalities, the first of its kind, was published and put on sale today.

The dictionary has about 10,000 entries and over 1,000 pictures describing the music, dance, drama and other forms of folk art, as well as literature and art organizations and well-known figures of all the 55 minority nationalities in China.

The dictionary is the result of 11 years of joint efforts by 500 artists, writers, painters and photographers from over 40 of China's ethnic groups.

**AGRICULTURE****Exports of Cereals, Oils in Sep***HK2410111091 Beijing CEI Database in English  
24 Oct 91*

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils and food in Sep 1991, released by the General Administration of Customs:

Name	Unit	Sep 1991	Sep 1990
Pig	head	270,016	300,785
Poultry	10,000	416	458
Beef	ton	10,233	7,449
Pork	ton	9,965	11,483
Chicken	ton	3,660	5,016
Rabbit	ton	933	2,217
Egg	1,000	34,155	36,068
Aquatic Products	ton	23,577	24,167
Fish	ton	3,825	4,695
Prawn	ton	3,086	2,329
Cereals	ton	706,619	494,960
Rice	ton	20,600	44,625
Maize	ton	501,316	306,928
Pulses	ton	60,928	42,308
Soybean	ton	94,393	63,719
Vegetables	ton	89,564	80,716
Fruit	ton	14,104	17,539
Orange	ton	7	0
Apple	ton	62	573
Sugar	ton	26,474	92,509
Canned Food	ton	66,450	36,992
Pork	ton	17,786	6,406
Vegetables	ton	34,248	22,434
Fruit	ton	7,806	5,357
Others	ton	6,610	2,794
Peanut	ton	10,440	17,736
Vegetable Oil	ton	1,462	12,280

### Sep Textile, Cereals, Oils Import Figures

HK2810092091 Beijing CEI Database in English  
28 Oct 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of textiles in September 1991, according to primary statistics released by the General Administration of Customs:

Item	Unit	Sep 1991	Sep 1990
Synthetic Fibres for Spinning	ton	52,578	33,072
Polyester Fibres	ton	16,462	11,482
Acrylic Fibres	ton	35,569	21,103
Syn Fibres Yarn	ton	9,708	12,754
Polyamide Filament	ton	1,159	1,154
Polyester Filament	ton	4,291	7,218
Regenerated Fibres for Spinning	ton	10,647	6,768
Regenerated Fibre Yarn	ton	58	530
Rayon	ton	3	486
Wool	ton	6,752	2,082

Following is a list showing China's import volume of cereals and oils in September 1991, released by the General Administration of Customs:

Item	Unit	Sep 1991	Sep 1990
Cereals	ton	1,257,864	1,272,429
Wheat	ton	1,195,066	1,230,201
Soybean	ton	91	38
Sugar	ton	59,106	65,438
Animal Oils and Fats	ton	8,747	8,501
Edible Oil	ton	54,362	38,808
Other Oils	ton	83,365	132,013

### Agencies Step Up Efforts To Buy Cotton

HK2610074591 Beijing CHINA DAILY in English  
26 Oct 91 p 3

[By staff reporter: "State Buys Up Cotton for Textile Industry"]

[Text] Chinese commercial agencies are stepping up efforts to buy as much cotton as possible from farmers to ensure normal supplies to the country's large textile industry.

Cotton purchases from around the country stand so far at about 1.8 million tons of cotton, fulfilling 41 percent of this year's government-set buying target, said an official of the Cotton Administration under the Ministry of Commerce yesterday.

By the same time last year, they had purchased more than 2 million tons of cotton, or 47 percent of the State-targeted plan. The official attributed the slower pace of purchases to unprecedented summer flooding and other natural disasters.

Flooding and other natural calamities delayed and reduced the cotton harvest in some of China's major cotton producing provinces and autonomous regions.

The official said Xinjiang Uygur Autonomous Region and Gansu Province in northwestern China had fulfilled their State-set targets.

Shandong, Henan and Hebei provinces, which forecast larger yields for purchase than last year, are moving closer to the government targets. Agricultural officials have predicted China's cotton output this year to hit 4.65 million tons, 150,000 tons more than last year's figures.

The government plans to buy around 4.3 million tons for China's massive textile industries which swallow nearly 6 million tons of cotton annually if operating at full capacity.

The industry is now plagued by cotton shortages and growing stockpiles of its unwanted products.

The official hinted that it would be difficult to fulfill this year's government target as it has been in previous years.

The official noted that so far this year the government has had a tighter and better grip on cotton-buying to maintain normal cotton supplies to textile factories.

No panic-buying through artificially lowering or increasing purchasing prices has been reported in major cotton-producing provinces and autonomous regions, although some commercial agencies have been found to buy cotton from those areas outside their jurisdiction.

The production, purchase and supply of cotton is all under the control of the central government, and only the collectively-run rural cooperatives of supply and marketing are authorized cotton buyers.

These rural cooperatives are asked to purchase cotton only in the areas under their own administration in a bid to check malpractices in buying which have occurred over past years and caused losses to the government.

Chinese newspapers reported violations this week, reaffirming the government's sharply-worded appeals for a stable, systematic cotton buying process.

The PEOPLE'S DAILY reported that Hebei provincial government recently removed four managers of cotton purchasing companies in Gaocheng City, Jinxian and Wuji counties from office.

The four were found guilty of playing major roles in trading more than 5,000 tons of cotton for profiteering.

### **New Seed Fertilizing Increases Harvests**

*OW2410045291 Beijing XINHUA in English  
0231 GMT 24 Oct 91*

[Text] Beijing, October 24 (XINHUA)—A new method of fertilizing seeds by coating them with pesticide-fertilizer mixtures has achieved encouraging results in China.

China had for a long time used the old methods of soaking the seeds in water with pesticides or simply mixing seeds with pesticide when sowing. Those old methods have proved ineffective and will not fully protect crops from insect plagues.

Developed since 1980 by the Beijing Agriculture University, the new method has been introduced and tested for six years and used in some seven million hectares of fields.

According to today's PEOPLE'S DAILY, the method has increased harvests by 315 million kg of grain, 272 million kg of oil-bearing crops, and 4.175 million kg of cotton. Also, using the method, the paper said, an increase of one dollar investment generally yields 10 additional dollars worth of crops.

After sowing, the coating will absorb water to allow the seeds to swell but it will not dissolve immediately. Thus,

the coating will gradually let seep the pesticide-fertilizer mixtures for up to 55 days, the paper said.

Reportedly the method can reduce the frequency of supplementary pesticide spraying by one to three times, and can boost output by 10 to 20 percent

Over the years the researchers of the Beijing Agriculture University have developed 24 series of coating mixtures designed for different geographical locations and soil conditions in China. Their research products passed tests at the ministerial level five times, winning 16 patents.

Special mills and workshops have been built to produce coating mixtures in eastern China's Jiangsu and Shandong Provinces, the paper said.

### **Flooding Initiates More Water Control Projects**

*OW2310074791 Beijing XINHUA in English  
0632 GMT 23 Oct 91*

[Text] Beijing, October 23 (XINHUA)—The annual nationwide campaign to build more water control projects has begun in an effort to strengthen protections against natural disasters.

Following a succession of floods and droughts this year, more people and officials at various levels have realized the importance of building water conservancy projects.

The PEOPLE'S DAILY reported today that in the past few weeks over 20 million people of the country have been mobilized to take part in the construction of water conservation works.

Each year, Chinese farmers construct water conservation works during winter and spring, nonharvest seasons.

Jiangsu Province in eastern China has decided to control its expenditures to save more funds for flood control projects.

Anhui, one of the most seriously flooded provinces in eastern China, has increased its investment in water conservation projects this year to rebuild 60 percent of its flood-damaged projects.

Zhejiang Province has allocated more than 100 million yuan (about 20 million U.S. dollars) for water projects on the Hangjia Lake.

Jilin Province in northeast China has assigned more than 1.21 million laborers to water conservation construction projects.

Such works have also been started in Beijing, Tianjin, Shandong, Guizhou, Yunnan, Inner Mongolia and Tibet.

The PEOPLE'S DAILY today also carried an editorial emphasizing that construction of water conservation projects is as important to national growth as construction of energy and transportation industries.

The article said that without previous water conservancy construction projects, the flood disasters of this year may

have been even more destructive, bringing even more loss of life and economic destruction.

Since the founding of the People's Republic of China in 1949, the country has built flood diversion channels along the Huaihe and Haihe Rivers, and more than 80,000 reservoirs. The irrigated areas have been increased from 160,000 hectares to 480,000 ha. Anti-flood systems have been set up or reinforced on the main rivers of the country.

But the water conservancy facilities of China still need to be further improved and strengthened, the paper said. At the same time, northern Chinese areas face shortages of water resources. More efforts and hard work should be made to solve these shortages; water conservation construction should be given priority when working out economic development plans at various-level governments, the editorial said.

### **Protein-Enriched Flour Hits Market**

*OW2510040691 Beijing XINHUA in English  
0313 GMT 25 Oct 91*

[Text] Beijing, October 25 (XINHUA)—A flour enriched with protein has entered markets recently, according to China's Ministry of Commerce.

The flour was developed by the Shangqiu Flour Mill in Henan Province and Shandong Provincial Academy of Medical Sciences.

Statistics from the food and agriculture organization under the United Nations show that the average person in China absorbs 64.4 grams of protein per day, some 10.6 grams less than the standard set by the organization.

Experts said that the quality of the protein content of the enriched flour can be compared to that of meat, milk or eggs.

So far this kind of flour is mainly served to China's six million coal miners, most of whom lack protein and vitamins.

An experiment on miners in Bailong Coal Mine in Shandong Province, who were given the enriched flour for 70 days, showed that their blood serum protein and vitamin content levels increased, as did their resistance to disease.

### **Nei Monggol Sets New Records in Animal Husbandry**

*92CE0005A Beijing NONGMIN RIBAO in Chinese  
13 Aug 91 p 1*

[Article by reporter Xu Ke (6079 1482): "Nei Monggol Reaps Bumper Harvests in Animal Husbandry for Seven Consecutive Years; Total Number of Animals Sets a Record in 1991"]

[Text] According to a press conference of the Nei Monggol Statistics Bureau, Nei Monggol reaped bumper harvests in animal husbandry for seven consecutive years. At the end of June 1991, the total number of

livestock in the region reached 55.681 million, an increase of 2.607 million over 1990, an all-time high.

Nei Monggol has persisted in using reform and opening up as an impetus to the development of animal husbandry, and has developed animal husbandry with science and technology. The region has built 800 comprehensive service stations that combine animal husbandry, veterinary science, grasslands, and management. It has continuously popularized over 30 techniques applicable to animal husbandry in recent years. The quality of animal husbandry has increased year after year. The ratio of improved breeds increased from 45.1 percent in 1990 to 49.7 percent in 1991. At the same time, the construction of pastoral areas has made marked achievements. The region has built 23,161 fenced-in pastures and livestock grazing areas, covering 7.09 million mu and centering on water conservancy projects. In the winter of 1990, the region stored 5.26 billion kg of hay, raising hay reserves from less than 50 kg per animal to 110 kg, thus increasing the ability to resist natural calamities.

### **Guangxi Cotton Shortages Threaten Spinning Industry**

*92CE0005B Beijing NONGMIN RIBAO in Chinese  
15 Aug 91 p 2*

[Article by Han Bangrao (7281 6721 1031): "Guangxi's Serious Cotton Shortages May Shut Down the Spinning Industry"]

[Text] The spinning industry in Guangxi Zhuang Nationality Autonomous Region has a production capacity of 500,000 spindles. When cotton was insufficient, the state began in 1987 to reduce year after year the cotton supply quota for the region. Spinning enterprises organized above-plan cotton supply and expanded the use of chemical fibers, thus maintaining normal production, and ensuring the continuous, stable, and coordinated development of the spinning industry in the region.

But in-plan cotton allocations were not fulfilled in 1991, causing a serious shortage of cotton, and threatening the shutdown of many spinning mills. According to the 1990-1991 plan, the state should allocate a total of 40,000 tons of cotton to Guangxi. From September 1990 to April 1991, the plan was to allocate 27,266 tons in different stages. Now a report of a regional local produce company shows that between September and December 1990, the plan was to allocate 7,530 tons to Shandong Province, but as of April, only 5,940 tons were allocated; the plan was to allocate 500 tons to Jiangsu Province, but the plan has not been fulfilled as of today. In the first four months of 1991, a total of 13,636 tons were allocated according to plan. Only Henan Province's allocations of 4,000 tons of cotton and 1,096 tons of imported cotton had been fulfilled. The planned 8,500 tons for Shandong, Hebei, and Jiangsu provinces has not yet been fulfilled. Failure to transfer cotton into Guangxi has directly affected the production of the spinning

industry. Due to cotton shortages, many enterprises including the Nanning Cotton Spinning and Dyeing Mill, and the Dongjiang Textile Mill are facing the possibility of shutting down. This will have a serious impact on fulfilling the textile industry production plan in the first year of the Eighth Five-Year Plan period.

### Ningxia Enjoys Good Summer Grain Harvest

92CE0005C Yinchuan NINGXIA RIBAO in Chinese  
21 Aug 91 p 1

[Article by Su Yuying (5685 3768 5391) and Han Huiping (7281 1920 5493): "The Huang He Irrigated Area Reaped Another Bumper Harvest of Summer Grain; Total Output Increased 0.26 Percent Compared to the Bumper Harvest in 1990"]

[Text] According to an announcement of the Autonomous Regional Agricultural Brigade, under the leadership of party committees and government organs at all levels throughout the region, the favorable external condition created by the support of all trades and professions for agriculture, and the joint efforts of the broad masses of peasants and scientific and technical personnel throughout the region, the Huang He irrigated area reaped another bumper harvest of summer grain in 1991. The total output reached 521,800 tons, an increase of 1,300 tons or 0.26 percent compared to the bumper harvest in 1990. Among which, total wheat output was 504,700 tons, an increase of 500.13 tons or 0.1 percent compared to 1990.

The irrigated grain area was 1.605 million mu in 1991, an increase of 33,700 mu over 1990. Due to increased area, total output increased 11,200 tons. Due to the average 6.2 kg decline in per-mu yield, total output was reduced by 9,900 tons. Balancing these two factors, the total output of summer grain increased 1,300 tons.

In spite of frost damage, the irrigated area reaped a bumper harvest of summer grain; the main reasons are:

1. Party committees and government organs at all levels have enhanced understanding of the foundation of agriculture, formulated policies emphasizing agriculture, and created a favorable external environment under which society pays attention to and supports agriculture.

2. Agricultural inputs have increased. From January to April, the 11 cities and counties of the Huang He irrigated area issued a total of 157.9 million yuan in agricultural loans, an increase of 77.3 percent over the same period in 1990. Local treasuries spent 8.0269 million yuan to support agriculture, an increase of 4.9 percent over the same period in 1990.

3. The supply of capital goods for agricultural use has been good. By the end of March, the autonomous region had allocated a total of 231,000 tons of high-quality chemical fertilizer, 228 tons of pesticide, and 1,194 tons of plastic film, basically satisfying summer grain production needs.

4. Science and technology has played an important role in developing agriculture. Along with the further implementation of the "231" project in the region, agricultural scientific and technological contracts have been widely implemented in the rural areas of the region. The broad masses of agrotechnicians have gone to fields to teach scientific farming techniques to peasants. Statistics show that in the first half of 1991 the irrigated area sponsored a total of 4,707 various training classes, 328,400 people attended and 350,000 copies of materials on practical rural science and technology were handed out. Through a series of science and technology popularization activities, the region has made peasants more aware of the need to study science, increased their ability to use science, and has played an important role in the practice of production.

Although the irrigated area reaped another bumper harvest of summer grain in 1991, it is worth noting that the per-mu yield declined substantially compared to 1990. This explains that the comprehensive grain production capacity of the region is weak and the ability to resist natural calamities is poor. This should arouse the attention of all.

### Non-Marxist Approach To Root Cause of Crime

91CM0533A Shanghai SHEHUI [SOCIETY]  
in Chinese No 78, 20 Jul 91 pp 44-46

[Article by Lu Jian (7120 0256): "Crime: A Dilemma in the Course of Modernization"]

[Text] The crime problem has been puzzling those people who are idealists in their evaluation of the progress and results of modernization. Once we boasted of an extremely low crime rate and criticized other countries for soaring crime waves. Today, our modernization has barely begun, and our crime rate has been rising year after year. We are confused again.

In ancient China, there were many generations of people worshipping "a small country with a small population." They tried to stop crime and transgression and to bring about a great order across the country by pursuing a policy of "no contacts with even the closest neighbors." The policy of "encouraging the fundamental and suppressing the incidental" long practiced by rulers was to use another form of "a small country with a small population" policy to eliminate the root cause of crime. Through this, the rulers hoped to bring about social progress in an environment free of transgression and crime. The result was that they "brought about great order across the country" and eliminated crime at the price of ruining social progress and prosperity, thereby costing them the loss of their dynasties. People still believe either consciously or subconsciously that there was no crime or very little crime during the period following 1949. Behind the extremely low crime rate which people were so proud of, the republic paid a huge price in those years—a growing gap between China and developed countries.

During the 10 years after 1979, modernization brought enormous progress to Chinese society and won new respect for China. This progress was the desired goal and expectation of the initial modernization plan. It was hoped for by all people throughout the country, but the overwhelming majority of people stubbornly thought that there were only flowers, progress, and light on the broad road of modernization. These people were not, nor were they willing to be, mentally prepared for the appearance of difficulties, problems, and contradictions. While great achievements have been made, the real result of modernization is that various social problems have arisen in large numbers and the phenomenon of transgression has affected the benign circle of society and even threatened the normal progress of modernization. One of the most prominent problems among the problems that have arisen on the road to modernization is the increase in the crime rate. It has overshadowed the people's evaluation of modernization. The government has admitted that modernization may cause the crime rate to increase, but it hopes to adopt measures to minimize it and to return to the era of the 1950's and 1960's when "no one picks up and pockets anything lost on the road and no one locks his door at night." Words reflecting this idea of the government such as "the

economy has to go up and crime has to go down" or "the economy needs to be developed and social security needs to be improved" can be found everywhere in official documents and relevant newspapers and periodicals of the entire 1980's. Government behavior shows that the government is anxious to put an immediate stop to the increase of crime through "severe attacks" and reduce mobile crime by limiting the flow of population. The people do not like to see metal doors multiplying and fences getting higher. Still worse, they are afraid of being robbed. This is an expression of the Chinese mentality that "wishes for neither a great nor a bad fortune." Although modernization has brought many real benefits to the people, increasing crime has caused them great anxieties, and the honest and simple practice of traditional society still lingers in their mind. Public opinion has put great pressures on government behavior and thereby affects the thinking process of the government as well as progress in the work of modernization.

This view that the progress of modernization should not be accompanied by the increase of crime is a view that can be widely accepted by the people and is due to the following factors: 1) The Marxist theory of crime. According to the theory of the founder of Marxism, crime is a product of class suppression in a class society. The root cause of crime is the capitalist system in a capitalist society. Crime will disappear as class and class struggle are eliminated. After socialism achieved success in China, we firmly believed that the Marxist theory of crime would prove to be true. Sure enough, this began to happen in the 1950's and 1960's. We concluded by inference that as the socialist revolution deepens, crime would decline and eventually disappear. This view substantially contradicts the increasing crime of the last 10 years, causing the people to become suspicious and creating great problems for the government. 2) The growth and decline concept of crime. Ordinary people think that social progress and advancement should include the reduction and disappearance of crime. Otherwise, social progress and advancement would be a failure. Still worse, they often use the growth and decline of crime as a criterion for measuring the success and failure of society. This concept has long dominated the judgment of ordinary people. We have fully criticized the rising crime rate of Western industrialized society. When confronted with the rising crime of China in the 1980's, we were shocked and hurt as if it were an episode that should not have been there.

In sum, the increase of crime is an unexpected phenomenon in the course of modernization. It has created thorny problems for the government and the people, affecting the judgment and behavior choices of the Chinese who have gone through 10 years of reform.

Many people unrealistically wish that society would reach a state of ideal and extreme pureness, becoming purer as it goes through different stages leading to this ideal state. However, wishes cannot replace reality; the long-term ideal, especially, cannot replace harsh reality. In a particular stage of modernization, people can only



use the actual conditions of social changes and development as criteria for judging and making behavior choices. The increase of crime is a common trait of modern society. We must not negate what modernization contributed to progress. Famous 18th-century French thinker Russell clearly realized that progress is bound to result in some ethical and behavior regressions which are the inevitable price of progress. The modernization of Western society after the Industrial Revolution, the modernization of South America after the war, and the modernization of China in the 1980's have been different from each other, but they all have one thing in common. That one thing in common is that modernization is always accompanied by the increase of crime. Moreover, the motive of crime is not external; instead, it comes from the modernized society itself.

Let us first take a look at the changes in the situation of crime after 1949. Between the initial period of liberation and 1979, there were some ups and downs in the crime situation of China, but in general there was very little crime, and things were stable. In the 1950's ordinary criminal cases were roughly below 150,000. Several years before the "Great Cultural Revolution," the number was about 200,000. Between 1976 and 1979, the number was about 500,000. The growth and decline of criminal cases in these 30 years were controlled by three factors. 1) Political crime. In the early 1950's there were three times more counterrevolutionary cases than ordinary criminal cases, thus substantially increasing the total number of crimes. After the Cultural Revolution, the number of counterrevolutionary cases declined sharply. In the 1980's less than one out of 10,000 was charged with counterrevolutionary crime. 2) Price increase. Most ordinary criminal cases are property-related crimes which are always measured by price standards. Since the inflation rate was very high during the 30-year period, the increase of crime was grossly exaggerated. 3) Population growth. In 1979 China's population more than doubled as compared to that of 1949. Considering this population growth and the effect of such factors as increased prices, the increased rate of crime could not have been too high. Moreover, continuous political movements and the slow development of industrialization and urbanization also suppressed the increase of economic and rural crime. During the 10-year period between 1980 and 1989, the growth of China's population was not very fast, but the number of criminal cases increased extremely fast. During the entire 1980's, criminal cases averaged more than 600,000 a year (not including cases accepted by courts and procuratorates). In order to make it easy to conduct a correct analysis, we will now take a look at the increased rate of most punishable major and important cases. Before 1980 China seldom had more than 50,000 major and important criminal cases a year, and of these, many were political cases. After 1980 major criminal cases increased rapidly. If the number of major criminal cases was 100 in 1981, the number would be 131 in 1985, 161 in 1986, 267 in 1988, 698 in 1989, and 825 in 1991. The number of major cases in 1990 was more than eight

times that of 1981. Such a trend of increase is extremely shocking. The criminal judgments published by the Supreme People's Court and the Supreme People's Procuratorate also generally reflected this phenomenon. According to forecasts, the increase of crime is unavoidable in the 1990's in China.

Modernization is a contradictory process filled with progress and regress. While it accelerates social progress and advancement, it also disrupts social order, thereby leading to the occurrence and growth of crime. Judged from the angle of criminal sociology as a social phenomenon, the establishment of crime includes at least three major aspects: activity, condition, and judgment of crime. Criminal activities have always been activities of humans. The change and the increase of criminal conditions determine the change and the increase of criminal activities. The civilization of mankind demanded that certain behavior affecting or even hindering progress be controlled and restricted, so legal standards were set forth to define certain activities as criminal. Such criminal judgments will increase along with the expansion of the diversity of humans and human activities. Thus, modernization is bound to increase criminal conditions, increase criminal judgments, and eventually increase criminal activities.

Modernization has turned an agricultural society into an industrial society and enabled science, technology, and the economy to develop substantially. Economic interests have become an important goal widely pursued by the people. This can easily trigger conflicts. Contradictions have been prominent in the determination of economic relations between people and economic inequality. As a result, comparatively poor people have appeared. Economic activities characterized by non-barter trade such as economic fraud have provided good opportunities for criminal activities and have undermined economic credit. The enterprise closings, unemployment, and inflation which occurred in large industries have further accelerated the increase of crime rate.

Modernization has propelled urban progress and enabled cities to become the main carrier of modern civilization. Urbanization is a main component of modernization. It has not only enlarged urban areas but also has transformed many rural areas into urban areas. However, urbanization has inevitably caused originally intimate inter-personal relationships to be replaced by distant ones. Consequently, social disintegration and cultural dissolution occurred on a grand scale, and the moral force that controlled crime has weakened day by day. The great concentration and mobility of urban wealth, as well as the conflict and struggle of sub-cultures, have constantly caused frictions among urban residents and those newly arrived and the external mobile population. They are enticed to adopt different or even diversified means to adapt their behavior. This leads to the rise of criminal activities. One of the reasons for the sharp increase in China's crime rate in the 1980's was the deterioration of security in cities and their surrounding areas. The percentage of urban population

in China's total population increased from 14.4 percent in 1982 to 19 percent in 1987. Urban security witnessed changes in 1984, and the percentage of major urban criminal cases in total major criminal cases increased from less than 30 percent before 1984 to 41.4 percent in 1987. In 1989 the ratio of urban population barely exceeded 20 percent but that of major urban criminal cases exceeded 50 percent.

Modernization needs the mechanism of a mobile population. Modernization means the doing away with the isolationist concept reflected by "a small country with a small population." Both the commodity economy and the competition of labor require a constant and rational circulation of population. The trend is that such circulation is increasing both in number and space. Population flows from inland to coastal areas, from rural to urban areas, from small to large cities, and also among different countries. The scale of this flow was unprecedented in the 1980's. This population flow has given an impetus to economic prosperity and cultural development. At the same time, a group of criminals, looking for an opportunity to commit crime, have also found their way into the population flow. The flowing population has also provided ideal protection for such criminals to escape prosecution. In the 1980's the percentage of crime committed by non-residents in the criminal cases of large coastal cities increased from less than one percent in the early 1980's to about 30 percent by the end of the 1980's. For instance, in 1988 the number of non-residents (2.09 million) of Shanghai nearly tripled that of 1984 (700,000), and the ratio of crime committed by non-residents quadrupled. The crime rate among non-residents was one per thousand, which was more than twice as much as the national average level. Population flow among nations has internationalized domestic crime. Foreign criminals continue to cross the border to commit crime. Criminals, within and outside the border, collaborate with each other, increasing the number of joint cases and the difficulty of solving such cases. In sum, the speeding up of the population flow has created ideal conditions for crime.

Modernization encourages people to develop in various directions, at various levels, and with great diversity. It divides the people and finally causes some to slide into the mud pit of crime. In an agricultural society most people are homogeneous. One of the results of modernization is that by changing the nature and the relationship between nature and men, men have changed themselves and gradually enlarged the cultural difference between people. Their lifestyles, value concepts, behavior patterns, and religious beliefs have become increasingly and even completely different. As a result of social competition, each different group of people has some losers with abnormal behavior and some losers who have been given up as hopeless. The plans of these people have been thwarted on the train of social progress. They are forced to live on the edge of crime. They will take to evil ways if they are not very careful.

Problems facing today's China should not be ignored. Although the majority of people are satisfied with their work and distribution, a few people are impoverished. Some have become transients and others beggars. Promoted by industrialization and urbanization, the diversity of the rural population has become especially prominent. Whether or not a person is capable and competent has become increasingly obvious. The number of losers from competition is increasing as each day goes by, as is the number of crimes.

To protect its uninterrupted progress, modernization needs to use the law. It must define activities hindering its progress as crime. The more advanced the civilization, the more diversified will be human activities and the more necessary it will be for legislative organs to eliminate through the formulation of many new laws those activities that hinder the implementation of modernization, to define and punish certain activities as crime, and to create a good social order for modernization. In the 1980's when China adopted the policies of opening to the outside world and invigorating the domestic economy, the commodity economy gradually replaced the product economy, economic transactions became increasingly frequent, the two tracks developed simultaneously and inter-acted on each other, cadres obtained many privileges in economic activities, and international contacts expanded. All these contributed to the occurrence or sharp increase of new crime under many new circumstances. The many amendments of the criminal law and the many resolutions of the Standing Committee of the National People's Congress on sentencing and penalties explain that new obstacles hindering social progress will occur in the course of modernization. This requires that we continue to adjust our laws to define certain activities as illegal or criminal. As far as a society is concerned, doing so will increase the total number of crimes. So committing a crime is not only a type of social behavior but also a subjective judgment of people in the process of abandoning the evil and promoting the good. It is especially true on the road of modernization.

To sum up the above, while pushing society to advance in strides, modernization has also provided conditions for crime in certain areas and has caused a few people to commit crimes. In the starting stage of modernization, this situation may be more serious. A scholar pointed out that modernization is a course in which men use confusion and suffering as a price to exchange for new opportunities and hopes. This is a choice of risk. It needs sacrifice. However it must be a choice that offers progress and greater real benefits. We must not give up eating for fear of choking and allow the phenomenon of increasing crime in the course of modernization to cover up our eyes and disrupt our action. We must continue to carry out modernization in depth and breadth, suppress crime in the course of such development, and reduce the crime rate. This is the only correct attitude a materialist should have.

**Businessmen Speed Up Investment in Hong Kong**

92CE0041A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 37,  
16 Sep 91 pp 3-4

[Article by Li Shuming: "Taiwan Capital Quickens Its Pace in Entering Hong Kong"]

[Text] Although it was only four to five years ago that Taiwan businessmen started to invest in Hong Kong, it is an irrefutable fact that their development is considerably fast. According to estimates, the number of Taiwan entrepreneurs who invest in Hong Kong is about 1,000, and total investment has reached 2.5 billion yuan. Although this figure is below the total amount of investment made by other regions in Hong Kong, it is still difficult to predict the scale of future development, since the growth of Taiwan capital in Hong Kong at present is still in the initial stage. Therefore, the strength of Taiwan capital should not be underestimated.

**Internal and External Factors for Taiwan Business Outside Development**

Taiwan business investments in Hong Kong are mainly aimed at turning Hong Kong into a port for transshipment to seize the mainland market. If they have invested in the mainland, they may use Hong Kong for logistic support, and take care of their mainland business.

In fact, Taiwan businessmen have been fairly active in making outside investments. There are many reasons. Li Chien, General Manager and Trustee of the Taipei Trade Center, said: As for internal factors, Taiwan's industrial development has reached the saturation stage. Particularly the living standard in Taiwan has greatly improved, wages grossly increased, and there are labor shortages. Under these circumstances, industry must seek outside development to maintain its competitiveness. It is precisely at that moment that Taiwan authorities have duly relaxed foreign exchange controls and permitted citizens to visit relatives on the mainland. This has given Taiwan's businessmen an idea to invest in the mainland and other regions. As for external factors, places such as Malaysia, Thailand, Indonesia and the mainland are all ideal places for industrial investment, because there is plenty of labor, natural resources that can be used, and wages are low. It is the best choice for the development of Taiwan's conglomerate industry. As of now, most of Taiwan's large entrepreneurs invest in Malaysia. The mainland only ranks fourth on the list, mainly because of political factors between the two sides of the Taiwan Straits. Taiwan businessmen are still restricted in choosing the form that they can select to make investments in the mainland. Therefore, they can only use Hong Kong as a port for transshipment.

Naturally, in addition to the fact that Hong Kong can be used as a port for transshipment, there are also a number of favorable factors that attract Taiwan businessmen. For example, Hong Kong has accumulated rich international experience in the past, and has well-equipped

communication facilities and so on. According to estimates, most of Taiwan's businessmen have mainly invested in trade, real estate and service industry in Hong Kong at present.

**Hong Kong's Role As Port of Transshipment Cannot Be Replaced While Trade Between Hong Kong and Taiwan Is Expanding**

Trade between Hong Kong and Taiwan has been going on for many years, the trade volume continues to increase, from \$1.8 billion in 1980 to \$12.7 billion in 1990. This shows an average growth rate of 26.7 percent per year (see table). Now Hong Kong has become Taiwan's second largest trade partner, and Taiwan has become Hong Kong's fourth largest trade partner. In 1990, the first three top categories of Taiwan's export products to Hong Kong were footwear, textile and polystyrene products in order of precedence, and those from Hong Kong to Taiwan were gold, integrated circuits, micro components, and office machinery parts and accessories.

Hong Kong's role as a transit trade center has become more significant since the beginning of the 1980's. Especially indirect trading between the two sides of the straits has been rapidly expanding, and the volume of commodities in transit to Taiwan via Hong Kong has also been continuously increasing. Prior to 1986, Taiwan strictly forbade Taiwan businessmen from doing business with the mainland. However, Taiwan authorities later acknowledged the existence of transit trade between the two sides of the straits. The volume of trade between the two sides reached \$1.5 billion in 1987; \$2.5 billion in 1988; \$3.9 billion in 1989; and \$4.4 billion in 1990. In other words, the transit trade between the two sides of the straits via Hong Kong accounted for approximately 33 percent of the total volume of trade between Hong Kong and Taiwan since the beginning of 1987.

While trade between Hong Kong and Taiwan is continuously expanding, and Taiwan businessmen are making more investments in Hong Kong, Taiwan's Minister of Economic Affairs Vincent Siew called on Taiwan businessmen in April this year to replace Hong Kong with Singapore as a port of transshipment for indirect trading between the two sides of the straits. Can Singapore replace Hong Kong? Li Chien told our reporter that for the time being, no other nation can replace Hong Kong, because the financial, communication, transport and legal systems in Hong Kong are already on the right track. In addition, Hong Kong's information network is well developed, and Hong Kong and the mainland are only separated by a strip of water. It is impossible to replace Hong Kong with Singapore. The Taipei Trade Center opened a branch in Hong Kong in May this year. This is the best example to show that trade between Hong Kong and Taiwan is still developing in the right direction.

### **Booming Real Estate Market; Active Taiwan Business Investments**

In addition to trade, Taiwan businessmen are also quite interested in other types of large investment projects in Hong Kong. They are especially interested in real estate investment.

Taiwan businessmen are particularly in favor of real estate in Hong Kong. Naturally they see land shortages in Hong Kong, land prices continue to rise, and the rate of returns on real estate investment is high. Therefore, it is profitable to invest in real estate in Hong Kong.

In fact, Taiwan businessmen began to invest in Hong Kong's real estate in the beginning of 1980's. At that time, the Chiaofu Group was already planning to build the Yangmingshan Villa. After nine years of construction work, it finally completed the project in 1989 and built a sumptuous housing area with 18 high buildings. However, the real upsurge in real estate investments in Hong Kong made by Taiwan businessmen started in 1988. During that year, the Lunghsiang Group bought the JAL Hotel in East Tsin Sha Tsui at HK\$1.006 billion. Although the Lunghsiang Group later declared bankruptcy and the JAL Hotel was put on the market for sale, the purchase of the JAL Hotel at an exorbitant price by the Lunghsiang Group was an eye-opening deal in the real estate business circles in Hong Kong that year. During the past two years, real estate investments made by Taiwan businessmen also included the purchase of the site of the former Shing Ping Dance Hall in Wan Chai by the Evergreen Group at HK\$240 million for the construction of the Evergreen International Hotel, the purchase of a 50 percent share of the Hyatt Hotel in the Admiralty area at HK\$830 million, and the purchase of several floors of offices of the Convention and Exhibition Center by the Hualung Group.

After the 4 June Incident, Japan, the largest investor in Hong Kong's real estate market, was considerably prudent in investing in real estate business in Hong Kong. On the contrary, Taiwan businessmen have acted vigorously and exceeded Australia to become the second largest investor after Japan, showing their confidence in Hong Kong's future. However, Taiwan businessmen's real estate investments in Hong Kong were also curtailed during the past year as a result of economic slump and difficulties in procuring bank loans in Taiwan. The Cathay Life Insurance Company owned by Taiwan businessman Tsai Chen-nan sold all units on the 25th and 26th floors of the Great Eagle Center in Wan Chai at HK\$160 million during the first half of this year. All this clearly shows that Taiwan businessmen are curtailing their outside investments under the influence of Taiwan's own economy.

In addition, Taiwan businessmen had once thrown the Hong Kong stock market into disorder such as their attempt to purchase the Oi Mi Ko Industrial Company. Although their attempt finally failed, their vigor and relentlessness left a deep impression. Besides, the distribution and sale of second or third line stocks in Hong

Kong such as Crusader, Chuan Ho, Far East Development and Kwong Sang Hong also involved capital from Taiwan.

### **Banks Set Up Strongholds in Hong Kong To Promote Exchanges**

Due to the continuous growth of investments between Hong Kong and Taiwan, there is a need to further strengthen financial cooperation. At present, Taiwan's financial institutions are actively planning to set up strongholds in Hong Kong. They plan to even more rapidly achieve their goals in Hong Kong by opening up branches, joint venture banks, or buying small banks.

People in Taiwan financial circles believe that setting up strongholds in Hong Kong is conducive to raising the status of Taiwan's financial industry in the international financial community, and that Hong Kong may become an important post for Taiwan banks to develop outside of the island in the 1990's. In August this year, Taiwan's Hua Nan Commercial Bank officially opened its agent office in Hong Kong. As of now, this bank is the first one in Taiwan to set up an agency that involves banking in Hong Kong. In an interview with our reporter, Wu Tu, manager of the office, pointed out: The opening of their Hong Kong office was prompted by various enterprises first, because there is a need on the market. On the other hand, Taiwan's financial circles have in recent years wished to enter the international market. This requires that they set up offices in various major banking centers in the world. The Hua Nan Commercial Bank has already opened up two branches in the United States. Hong Kong is also an international banking center. In addition, all the investments on the mainland made by Taiwan's industrial and commercial circles have to go through Hong Kong. Therefore, Hua Nan decided to set up an office in Hong Kong. However, Wu Tu said that the Hua Nan Commercial Bank originally hoped to set up a branch in Hong Kong; therefore, when the bank filed its application to the Ministry of Finance in Taiwan, it stated that it planned to set up a branch. Nevertheless, according to a provision of the Department of Banking Regulations and Supervisory Practices in Hong Kong, Hua Nan must open up an office first and be upgraded to a bank later. In view of this, some banks in Taiwan such as the First Commercial Bank and the Chang Hua Commercial Bank plan to set up their Hong Kong branches through other means. Buying a local bank in Hong Kong is one method.

It is not hard to understand the Hua Nan Commercial Bank's eagerness to upgrade the status of its office to that of a bank. Wu Tu pointed out: The majority of enterprises in Taiwan are small and medium-sized ones. Basically they open up branches or rent small offices in Hong Kong. The banks in Hong Kong know little about them, nor understand how they operate. Therefore, it is difficult for these enterprises to obtain financing or loans. According to Wu Tu, some Taiwan businessmen said that when they receive a letter of credit from a foreign country, banks in Hong Kong may ask them to show evidence of a 100 percent deposit in a bank before

they issue a back-to-back credit account. Banks in Hong Kong simply do not make things easy for Taiwan businessmen. As a result, many Taiwan businessmen have to work hard in Hong Kong by relying on themselves. When Taiwan businessmen heard that the Hua Nan Commercial Bank had opened its Hong Kong office, they rushed to visit the office, hoping that it would help them. However, as the current situation shows, the Hong Kong office of the Hua Nan Commercial Bank can only offer consultations and do some liaison work. Wu is unable to do any official banking business, although he is willing to help.

As for the endeavor made by the Bank of Taiwan to begin its business operation in Hong Kong (to be followed by the First Commercial Bank, the Chang Hua Commercial Bank and the Overseas Chinese Commercial Banking Corporation later), Li Chien believes this will help to continuously develop trade between Hong Kong and Taiwan. Also, if the Bank of Taiwan starts to do business in Hong Kong, it will add fresh blood to the financial industry in Hong Kong, and make the local banking industry flourish even more vigorously. This would also bring more of Taiwan's capital to Hong Kong, and in turn promote Hong Kong's prosperity and stability. Therefore, it can be said that the entry of Taiwan banks into Hong Kong is beneficial to both Hong Kong and Taiwan, he added.

#### Unfavorable Factors Baffle, Affect Development of Taiwan Business

There still are some unfavorable factors in Hong Kong that will affect Taiwan businessmen's hopes.

Li Chien believes that Hong Kong's high rent for offices is one factor that hampers Taiwan businessmen's development. The overwhelming majority of Taiwan enterprises are small and medium-sized ones. If rent in Hong Kong continues to rise, Taiwan businessmen will not be able to cope. They may even consider moving to other Southeast Asian countries and use them as ports for transshipment. This would harm both sides.

In addition, the issue of entry visa still irks Taiwan businessmen. It is hoped that the relevant departments can settle this issue as soon as possible.

Due to the fact that all Taiwan businessmen invariably regard Hong Kong as the port for transshipment when they make investments on the mainland, direct links in air and shipping services in the future between China and Taiwan will pose a threat to the role played by Hong Kong. Especially there will be no need to use Hong Kong as a port of transshipment for trading between China and Taiwan. Hong Kong will suffer a setback because of this. However, as far as financial circles are concerned, no other country can possibly replace Hong Kong at present, Wu Tu said. If Taiwan businessmen seek to learn something about world finance, they will still choose Hong Kong, he added. From a long-term point of view, he believes that there will be more and more Taiwan businessmen who invest in Hong Kong.

Hong Kong-Taiwan Trade Unit: \$1,000

Year	Exports to Hong Kong		Imported Hong Kong Goods		Total Volume of Trade	
	Amount	Rate of Growth (%)	Amount	Rate of Growth (%)	Amount	Rate of Growth (%)
1980	1,550,610	+36	249,921	+22	1,800,531	+34
1981	1,896,957	+22	308,911	+24	2,205,868	+23
1982	1,565,344	-18	307,393	-0.5	1,872,737	-15
1983	1,643,624	+5	298,897	-3	1,942,521	+4
1984	2,087,132	+27	370,356	+24	2,457,488	+27
1985	2,539,572	+22	319,678	-14	2,859,250	+16
1986	2,915,387	+15	378,646	+18	3,294,033	+15
1987	4,112,663	+41	706,644	+87	4,819,307	+46
1988	5,579,666	+36	1,921,692	+172	7,501,358	+56
1989	7,029,541	+26	2,204,770	+15	9,234,311	+23
1990	10,940,455	+56	1,780,217	-19	12,720,672	+38
1991 January to March	2,394,000		461,000		2,855,000	

Source: The Board of Foreign Trade under the Ministry of Economic Affairs

### Economy Reportedly Performing Even Better

OW1010095191 Taipei CNA in English 0825 GMT  
10 Oct 91

[Text] Taipei, Oct. 10 (CNA)—The Taiwan economy is performing ever better, and if the current six-year national development plan proceeds smoothly, the country will be able to achieve an 8 percent annual economic growth over the next two years, the Ministry of Economic Affairs reported Wednesday.

The government originally expected the domestic economy to grow 6.2 percent this year. Judging from the performance registered in the first three quarters, the ministry said, the economic growth rate will certainly reach 7 percent by year's end. The economy grew 6.6 percent in the first quarter and 7.2 percent in the second quarter, according to official statistics.

Although the South Korean economy outperformed Taiwan's in the first half of the year, the ministry said, its competitive edge has been eroded by its high inflation rate and growing trade deficit. Korean authorities have adjusted its 1991 economic growth target downward from 9.5 percent to 8.5 percent.

The ministry said the Washington Economic Forecast Association (WEFA) earlier predicted that Taiwan's annual economic growth rate will be 7.9 percent for the next two years; Korea's will be 8 percent for 1992 and 7.5 percent for 1993; Singapore's will be 6.7 percent and 5.6 percent for 1992 and 1993.

Li Kao-tsao, a department chief with the Council for Economic Planning and Development (CEPD), also reported Wednesday that the country's foreign trade has safely weathered a recession and has returned to its normal track of steady growth.

In a CEPD briefing on the nation's September economic performance, Li said Taiwan exports strengthened during the month after a slight slowdown in August. Taiwan exports grew at an annual rate of 25.3 percent to reach 7 billion U.S. dollars in September, second only to the record 7.11 billion U.S. dollars registered in July.

Li attributed the blockbuster export growth mainly to a rebound in shipments to the United States. With the U.S. economy turning for the better, Taiwan exports to that market rose 22.1 percent in September, compared to zero growth for the first eight months of the year. Li said a recovery in the U.S. economy will contribute to Taiwan's continuing export boom and economic growth.

With the launching of the ambitious 1991-1996 national development plan and a stable exchange rate, Li predicted the country's economic prospects will remain rosy in the months ahead.

But, an economics ministry official said that the smooth implementation of the 8.2 trillion NT dollar national development plan and stable political and social situation will be prerequisites for the country to achieve the WEFA-forecast growth targets for 1992-93.

### Economy Shows Signs of Strengthening

OW2910085591 Taipei CNA in English 0807 GMT  
29 Oct 91

[Text] Taipei, Oct. 29 (CNA)—The Taiwan economy showed further signs of strength in September with the month's economic performance getting a "healthy green" rating for a fourth straight month, the Council for Economic Planning and Development (CEPD) reported Monday.

The economy got a score of 28 in September on the CEPD-designed composite index, which measures Taiwan's economic health based on nine major indicators: export value, stock prices, the check default rate, new export orders, the money supply, the industrial production index, bank lending, factory inventories and non-farming employment rate.

Compared with August, exports and stock prices rose in September; two indicators, the check default rate and new export orders, worsened; and the other five indicators remained unchanged.

Generally speaking, CEPD said, September's economic performance was even better than that registered in August. The minimum score for a safe "green" rating is 23.

The index of coincident indicators, which measures economic performance during the month, rose to 135.71 in September, growing at an annual rate of 2.46 percent, CEPD said.

The September index of leading indicators, which measures economic prospects for the months ahead, rose 0.99 percent from August to 111.22, an indication that the local economy will remain bullish in the foreseeable future, CEPD said.

Except for February and July, CEPD said, the index of leading indicators posted gains, a further sign of an economic recovery that began late last year.

Although the current economic recovery may not be as strong as expected, a ranking CEPD official said, the Taiwan economy is "unmistakably" in good shape.

Li Kao-chao, director of CEPD's economic research department, said that Taiwan has outperformed many other countries in its economic development.

A recent Gallup Poll showed that more than 40 percent of the people surveyed said they do not think the local economy has recovered from its 1990 recession. Li attributed the phenomenon in part to the fact that the local stock market has not yet fully regained its strength.

Li stressed that local people need not worry much about the country's economic outlook as all major economic indicators point to a steady upswing.

CEPD tallies also showed that machinery imports increased a hefty 54 percent in September as compared with the year before, a strong sign of a resurgence in domestic investments, Li said.

Machinery imports totaled 4.56 billion U.S. dollars in the first nine months of this year, up 13.4 percent from the same period of 1990, according to CEPD statistics.

Machinery imports have been an important indicator of domestic investments. As long as local businessmen continue to invest and retain their business roots here, Li said, the island's economy will remain dynamic and rosy.

### **Unemployment Rate Hits Record Low 1.38 Percent**

*OW2610101191 Taipei CNA in English 0809 GMT  
26 Oct 91*

[Text] Taipei, Oct. 26 (CNA)—The jobless rate in Taiwan area hit a record low of 1.38 percent in the first half of 1991, the lowest since 1982, according to statistics released by the Economic Research Department of the Central Bank of China.

In the first six months this year, those employed totaled 8.37 million, an increase of 2.09 percent over the same period of last year. The gain was made against the background that automation in the manufacturing has cut work force by 1.04 percent.

The number of people engaged in agriculture rose 6.91 percent while the service industry employed an additional 3.59 percent.

### **Exports Expected To Increase**

*OW1010100891 Taipei CNA in English 0828 GMT  
10 Oct 91*

[Text] Taipei, Oct. 10 (CNA)—Prospects for exports from Taiwan will remain bright in the near future, an official of the Ministry of Economic Affairs said Wednesday.

He said orders received by Taiwan exporters have continued to increase by more than nine percent in the past four months. The value of orders received in August totaled 6.39 billion U.S. dollars, a hike of 14.55 percent over a year earlier. Export orders are usually seen by economists as a valid indicator of future export performance.

The official said exports from Taiwan are booming. In July, exports reached a record high 7.11 billion U.S. dollars. Two-way trade, which is expected to amount to

140 billion U.S. dollars this year, totaled 105 billion U.S. dollars in the first nine months of this year.

### **Provincial Government To Open Bank in Europe**

*OW2410082291 Taipei CNA in English 0751 GMT  
24 Oct 91*

[Text] Taipei, Oct. 24 (CNA)—Seven Taiwan province-owned banks will jointly establish a bank in Europe next year to provide local and foreign manufacturers with loans, commissioner Lin Cheng-kuo of the Department of Finance of the Taiwan Provincial Government reported Wednesday.

Initial capital of the venture is estimated at over 20 million US dlrs, Lin said. The co-operative Bank of Taiwan, the first commercial bank, the Land Bank of Taiwan and the Medium Business Bank of Taiwan will be the main investors in the proposed bank.

Lin said the new bank also plans to open branch offices in EC countries.

Budget for the new bank will be submitted to the Taiwan Provincial Assembly for screening soon, Lin added.

### **Dual Nationals Banned From Elected Posts**

*OW1910095191 Taipei CNA in English 0809 GMT  
19 Oct 91*

[Text] Taipei, Oct. 19 (CNA)—Republic of China [ROC] citizens with dual nationality will not be allowed to hold elected public office once a draft amendment to the current Nationality Law has been enacted, an official said Friday.

The Ministry of the Interior has completed a draft amendment to the Nationality Law which will soon be sent to the Legislative Yuan for approval, the official said.

According to the draft amendment, ROC citizens with dual nationality will be allowed to hold only selective public posts, including lower-echelon technical positions at science and technology research institutions; teaching and research positions at national colleges and universities and government-financed social service institutions; non-managerial posts at state-run enterprises; and contract technical and arts personnel with government agencies.

Once the bill passes the legislature, the official said, elected public office holders must resign if they retain dual nationality.



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